

# SECTION 1

## WHAT IS A 501(C)(3)

## PROS AND CONS OF A 501(c)(3)

### ◆ Pros

- Exempt from federal taxes.
- Can provide tax deduction to qualified donors.
- May be eligible for a larger number of grant programs.

### ◆ Cons

- The process is expensive and time consuming.
- There are Federal filing requirements.
- May require a more formal organizational structure than the group desires.

*There can be many reasons a group may choose not to incorporate as a 501(c)(3) corporation. For instance, sometimes it may not take many resources to run a smaller program so the financial advantages are not as great as they may initially appear.*

## Introduction

Many organizations in Missouri are doing great things for their communities. Some are doing things on a large scale, building community centers, industrial parks, retail developments, housing programs and other projects with major impacts on the development of their communities. For most of these groups the decision to form a not-for-profit corporation and file for a 501(c)(3) tax identification number is a relatively simple process. They may need exemption from federal income taxes simply to manage the financial resources they have gathered to implement and run their projects.

For many others (mostly smaller) organizations in Missouri, the decision whether or not to incorporate is not as easy to make. These groups are also doing very important projects in their communities. They may run educational programs, neighborhood organizations, and civic and recreational projects.

There can be many reasons a group may choose not to incorporate as a 501(c)(3) corporation. For instance, sometimes it may not take many resources to run a smaller program so the financial advantages are not as great as they may initially appear. Although it is not expensive, the cost of the application can approach \$500, which for many organizations may be a large portion of their annual budgets. The additional accounting required to maintain the 501(c)(3) with the federal government may also increase costs.

For organizations on a tight budget an alternative may be to work with an existing community organization that already has a 501(c)(3). An existing 501(c)(3) corporation may be in a position to provide some of the fiscal management for a group's activities. In cases like these, and others, the advantages of a 501(c)(3) are not so great that a group is willing to address the organizational and fiscal issues required for formal incorporation.

The intention of this workbook is to help a group make the decision whether or not to formally incorporate. For those that do decide to incorporate, this handbook will take them through the process of getting incorporated in Missouri, writing bylaws, and assembling the materials necessary to be considered for a 501(c)(3) by the Internal Revenue Service.

### What is a 501(c)(3)?

A 501(c)(3) is a type of corporation recognized by the federal government as an organization whose general purpose is educational, religious or charitable.

Some not-for-profit corporations will have very large budgets (some hospitals, churches and universities operate as 501(c)(3) corporations) and still rely on a level of public support over and above the money the corporation generates in order to continue providing their services.

The general purpose of a 501(c)(3) seems very simple and it is not terribly complicated. However, the IRS has a fairly rigorous application process where it uses the information provided by an applicant to determine whether an applicant is a business whose purpose is in fact educational, religious or charitable.

501(c)(3) not-for-profit status is desirable for many corporations because there are a number of benefits -not the least of which is that the qualifying organization has no federal tax liability. Most organizations will need to file a federal tax return (Form 990) annually but this is primarily to communicate to the IRS how much was earned in the fiscal year, from where it came and for what it was used. This helps the IRS verify that the organization still meets the requirements of a 501(c)(3) regarding the use of resources.

***Many organizations will start the incorporation process, even submit the application, without ever asking the question “Do I need a 501(c)(3) for my organization?”***

### **Do I need a 501(c)(3) for my not-for-profit organization?**

Many organizations will start the incorporation process, even submit the application, without ever really answering the question "Do I need a 501(c)(3) for my organization?" Often, a 501(c)(3) is required for a grant program, or sometimes a group is really interested in having the tax identification number so they can offer federal tax deductions to contributors. These may be compelling reasons for some organizations and are viable reasons for considering filing for 501(c)(3) tax exemption. However, achieving 501(c)(3) status is not some sort of nirvana for a not-for-profit corporation. There are costs associated with obtaining and maintaining a 501(c)(3) corporation.

These costs can often offset the benefits associated with having the 501(c)(3). For small organizations these costs can be fairly extreme. Any discussion about applying for a 501(c)(3) should include a look at both the benefits and the costs.

### **Benefits of a 501(c)(3)**

There are generally three principal benefits to an organization that files for a 501(c)(3):

- The organization becomes exempt from having to pay federal taxes on the income of the corporation;
- is allowed to offer federal tax deductions to qualified donors;
- and, may be eligible for a large number of grant programs.

Each of these reasons needs to be closely considered before making the decision to incorporate, particularly for organizations with limited resources. 501(c)(3) corporations don't pay taxes on their income.

This is a particularly important benefit to a large organization. Most not-for-profit organizations with annual operating budgets of less than \$5,000 per year are automatically exempt from federal income taxes and do not need to make application for a 501(c)(3). If an organization needs only to be exempt from tax liability then they simply need to be incorporated as not-for-profit in their state if their annual revenues are less than \$10,000 per year. In many cases they won't even need to file the annual form 990 tax return.

In order to receive the other benefits of incorporation, a group (even a small organization) will need to make application for an exemption letter. The exemption letter is the letter the organization receives from the IRS after the application has been accepted and 501(c)(3) status has been granted. When an organization has a copy of this letter, they can access the other benefits of 501(c)(3) status. 501(c)(3) corporations assure potential donors to the organization that their contributions will be tax deductible.

Contributions made to 501(c)(3) corporations by businesses and individuals are deductible from their federal income taxes. Businesses and individuals contribute billions of dollars each year to not-for-profit corporations. In return they get to deduct their contributions from their annual income taxes. These contributions are the lifeblood of many charitable organizations. This feature of the 501(c)(3) distinguishes it from the other not-for-profit classifications, such as business associations 501(c)(6) and trade groups 501(c)(4).

***501(c)(3)  
organizations  
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501(c)(3) to be  
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taxes.***

**Grant programs are important revenue source for not-for-profits.**

These programs can come from public agencies or private foundations. Most of these funders will require that a not-for-profit have a 501(c)(3) in order to be eligible for their funding. Sometimes this requirement is legal. That is, they must require the 501(c)(3) in order to participate in their program. Other times it is done mainly to make their jobs easier. For example, foundations are usually required to fund programs that meet the purpose of a 501(c)(3) (educational, charitable or religious organizations). However, there is nothing that requires them to only fund 501(c)(3) corporations. In the case of a foundation it is always a good idea to talk to someone at the foundation about the project that needs funding before making the commitment to get the 501(c)(3) in order to be eligible for their program. In some cases they may waive that requirement if it is a fairly small project and the organization can convince the foundation that it operates the same as a 501(c)(3).

Although the fiscal benefits of a 501(c)(3) can be considerable, it is important not to rush into the application process. It may be possible by working with other existing organizations in the community or by carefully researching potential funders to get all of the same benefits with fewer of the hassles that can be inherent in the management of a 501(c)(3). Many educational institutions and churches have the 501(c)(3) designation. If these existing institutions are willing to help, it is normally a good idea to partner with them to gain access to the benefits of a 501(c)(3) while a new organization is developing its structure.

Questions that a group should consider before filing for 501(c)(3) include:

**What do we want to accomplish?**

When a group has decided what it wants to accomplish and defined its specific purpose, many other decisions, such as whether to incorporate, can become obvious. In discussing this question a group needs to look at not just the specific projects but what the role of the organization will be in developing and implementing those projects. For instance, a group may decide that it wants to improve housing for low-income families by developing a new affordable housing project. In this instance, if the group is going to be the developer, they may need to incorporate and get a 501(c)(3) since there are many financial responsibilities associated with managing a housing development.

However, the same group may decide a more appropriate role for their organization would be to identify the families who would be good candidates for the new housing and develop programs to prepare these potential homeowners for home ownership. It may be possible to put together a first-rate program that plays a key role in the project but does not necessarily require a lot of fiscal resources. In this instance, working with someone else in the community as the developer (such as a community development corporation) may make it possible to play a key role in the community without needing to get the 501(c)(3).

**How can we best organize to meet our goals?**

No magic formula for creating a model not-for-profit organization exists. It is not possible to pick up a book of organizational structures/models and find one that will work perfectly. Even the organizational structures of groups doing essentially the same kinds of work will not necessarily be appropriate for another group of people who want to do some of the same kinds of things because the structure needs to represent the various needs of the members as well as the mission of the group.

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Organizational structures should reflect the decision-making needs and styles of the people who comprise the organization. As a group's membership, leadership and organizational purpose change, it is likely that the organization's structure also will need to change. Thus the structure should be flexible.

Groups need some flexibility in how they organize in order to deal with change. Once an organization has decided what it wants to accomplish, it should try to find a way to do their work for awhile before deciding on the type of formal organizational structure they want to adopt. It can be very difficult for a group to change its organizational structure once the group puts it in place

Occasionally a group will know immediately that they will need to obtain a 501(c)(3) and they will make an application. In these cases the purpose is clear and the organizational structure is apparent. This can be particularly true of a group that is intending to provide a single service to an easily identified clientele. An example may be to provide temporary shelter to homeless single mothers with children under the age of five. The purpose is clear. They may simply want to form a perpetual board of directors, adopt a fairly standard set of bylaws and apply for a 501(c)(3) so they can get on with their work. However, for most groups the formation of a not-for-profit will be more of an evolutionary process.

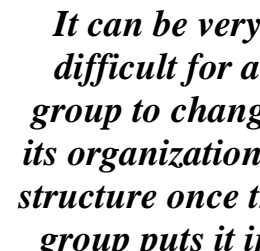
Often a group may form in response to a change in the community, a sudden influx of new immigrants to the community due to a new plant opening or the sudden exodus of many community members due to a plant closing. Usually there is a catalyst. An informal group will be created to address the specific needs presented by this catalyst. In Missouri there were many of these groups that formed informally during the big floods in 1993.

After the initial need has been met (sometimes successfully) the group will often look for something else to do that uses the energy and abilities of the group. Sometimes the group will decide to institutionalize so it can be better prepared next time. Whatever the reason, the group decides it wants to continue and it wants to grow, to involve more people and to attract more money.

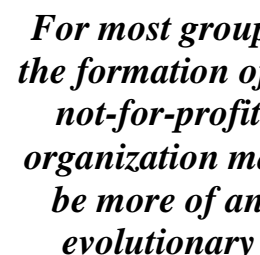
Up to this point the group has operated rather informally. It may borrow an office from another organization, use volunteers for the project(s), accept small donations from other organizations and make decisions on an ad hoc basis. It may not even have a chairperson to call the leader. Everything seems to be working well. There is lots of energy and things are getting done so there has been little need for any formal kind of structure.

As time goes on the scope of the organization may broaden as it raises more money or as projects become more sophisticated. Management issues such as who is in charge or who is responsible for managing the funds emerge as priorities. There is a need to have someone in the organization pay attention to those details. Sometimes a group can get by for awhile by affiliating with another existing organization that can take care of some of the management issues. There are many cases of groups in Missouri that were affiliated with a chamber of commerce or another traditional community organization. Sometimes this relationship can continue for a long time. Other times the group continues to grow and feels that it needs more independence or has a mission different enough from its sponsoring organization, so it decides to incorporate as a new group.

At this point the group is making a transition from an informal organizational structure to a more formal organizational structure in order to put in place the decision-making structures necessary to effectively run a corporation. This can be particularly true for a group that has been together awhile, has a number of accomplishments and views the establishment of a 501(c)(3) as simply a natural



***It can be very difficult for a group to change its organizational structure once the group puts it in place.***



***For most groups the formation of a not-for-profit organization may be more of an evolutionary process.***

step in its growth and development. Formal structure changes some of the dynamics among the participants. Whenever a formal structure is put into place there is always going to be a loss somewhere. Usually it will be some loss of enthusiasm and creativity that comes from a free-wheeling association with few rules and structures.

Many examples exist of groups that have been successful for years with little or no formal structure and just as soon as they formalize the organization's structure, the group dies or changes dramatically. This usually happens because the structure has become too formal too fast. The people who enjoyed participating no longer enjoy it because there are too many rules in place, or the organizational maintenance requirements of the formal organization leave little time and energy to carry out projects.

An essential organizing question that needs to be considered when a group is contemplating the transition to a formal structure is a question of balance. One of the principal challenges for an organization is to develop organizing structures that still encourage the creativity generated in an informal environment. This can be a difficult balance to achieve. It is best addressed by moving slowly and carefully defining the purpose of the group. It is critical that the organizational structure facilitates the work and purpose of the group. If the structure doesn't make it easier for people to participate and accomplish what they came together to do, then it is the wrong structure and needs to be changed.

#### **How will we make decisions?**

This is a question that every group needs to spell out clearly in its bylaws. If a group doesn't have bylaws, bylaws will need to be developed as part of becoming a formal organization. The bylaws should clearly spell out how decisions are made, especially for a newer group contemplating the transition from a looser, informal setting to a more formal organizational structure. Reaching consensus on how decisions will be made about the allocation of resources is particularly important. Who is responsible for spending decisions? Is there going to be a governing board? Will there be paid staff?

#### **Can our organization manage the accounting necessary for a 501(c)(3)?**

Many times a small organization does not have the accounting procedures in place to properly administer a 501(c)(3) corporation. The accounting procedures needed do not have to be sophisticated, but they do need to be accurate, consistent and well monitored. Oftentimes an organization will have a corporate structure that elects new officers every year, including a treasurer. There are several potential problems with this type of system for a 501(c)(3). For instance, when there is the potential for a new treasurer every year, it is inevitable that eventually someone will get the job that is not qualified or does not have the experience necessary to maintain the 501(c)(3). There have been instances where a series of treasurers (over two or three years) were elected who knew very little about maintaining a 501(c)(3) and let the tax status lapse. In other instances, the bookkeeping systems changed every year with each treasurer causing problems in maintaining any consistency in record keeping. Establishing a consistent and accurate record-keeping system is a key ingredient in being able to manage a 501(c)(3).

Most 501(c)(3) corporations will have to file a Form 990 annually with the IRS. It is like a tax return for 501(c)(3) corporations. It is not a complicated process unless the corporation is receiving funding from a variety of sources, has employees, and/or holds assets such as property, stocks and equipment. The more sophisticated the revenues and expenditures the more serious the need for

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assistance with accounting. The small not-for-profit with no employees and an annual budget of less than \$10,000 per year can function well without a professional accountant.

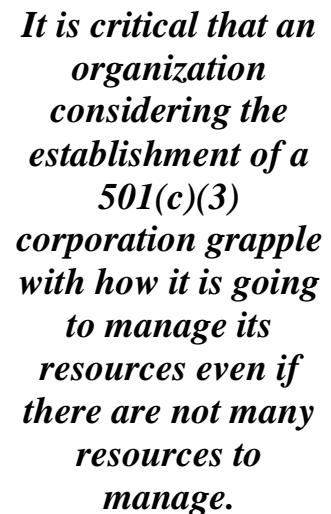
However, they will still need a carefully crafted accounting system that establishes a regular accounting period and a stable board structure. For instance a number of organizations will develop a board structure that elects officers every two years. They stagger the terms so that there is some assurance that there is always someone on the board familiar with the accounting from one year to the next. This type of approach provides much more stability than one that elects officers every year. It is critical that an organization considering the establishment of a 501(c)(3) grapples with how it is going to manage its resources even if there are not many resources to manage.

### **Incorporating as a not-for-profit corporation**

When a group decides to formally organize as a not-for-profit corporation it is usually facing up to four different levels of the process, beginning with forming a corporation in the state of Missouri and ending with the filing of the application for the 501(c)(3) with the IRS. Along the way a group will need to write bylaws and obtain a federal tax identification number. These four processes are all independent but necessary to receive a 501(c)(3).

The process of incorporating as a not-for-profit corporation in the state of Missouri is often confused with the Federal 501(c)(3) application process. Incorporating in Missouri as not-for-profit does not automatically make an organization a 501(c)(3) corporation. The 501(c)(3) process is separate from the process of establishing the not-for-profit in Missouri. Getting incorporated in Missouri is a first step. Page 24 has a graphic that illustrates the various steps in getting a 501(c)(3) designation.

The confusion stems from the not-for-profit designation. In Missouri, incorporating will exempt a not-for-profit from state income taxes but not federal income taxes. If the organization is small (less than \$5000 income per year) then they may also be exempt from paying federal income taxes without applying for 501(c)(3) designation. However, they will still need to go through the 501(c)(3) application process if they want to receive the other benefits of being incorporated as a 501(c)(3) such as offering donors tax deductions.



***It is critical that an organization considering the establishment of a 501(c)(3) corporation grapple with how it is going to manage its resources even if there are not many resources to manage.***



### Additional Resources

The following are some additional contacts that may be helpful:

#### Secretary of State

This office can answer questions about incorporating in the state of Missouri as a not-for-profit and provide the applications and amendment forms. There are four sites in Missouri:

Missouri State Information Center  
600 W. Main / PO Box 778  
Jefferson City, MO 65102  
(573) 751-2359 or 751-4544

Wainwright State Office Building  
111 N. 7th Street, Room 225  
St. Louis, MO 63101  
(314) 340-7490

Springfield State Office Building  
149 Park Central Square, Room 1019  
Springfield, MO 65806  
(417) 895-6330

Kansas City State Office Building  
615 E. 13th Street, 5th Floor  
Kansas City, MO 64106  
(816) 889-2925

#### Employer Identification Numbers

If your corporation needs an Employer Identification Number (EIN) an application may be obtained and sent to the address listed below. This application may also be made over the telephone by calling the number listed after the address. If you do file an application over the telephone it will still be necessary to submit the paper application in order to assure that the employer identification number is valid. An EIN is required for all 501(c)(3) applications regardless of whether your corporation has employees.

Attention: Entity Control  
Stop 57A  
2306 E. Bannister Road  
Kansas City, MO 64131  
(816) 926-5999

#### Internal Revenue Service

The application for the 501(c)(3) (Form 1023 and others) and all supporting documents must be sent to the address below (with the appropriate fee).

Internal Revenue Service  
P.O. Box 192  
Covington, KY 41012-0192



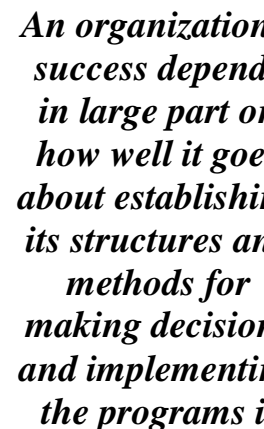
*An EIN is  
required for all  
501(c)(3)  
applications  
regardless of  
whether your  
corporation has  
employees.*

# SECTION 2

## CREATING YOUR ORGANIZATION'S BYLAWS

## **BYLAWS—THE RULES OF THE GAME**

- I. What is the name of the organization?**
- II. What is the purpose or mission of the organization?**
- III. What kind of corporate structure will be established?**
- IV. Terms and election of directors**
- V. Membership**
- VI. Officers**
- VII. Committees**
- VIII. Amendments**
- IX. Parliamentary Authority**



*An organization's success depends in large part on how well it goes about establishing its structures and methods for making decisions and implementing the programs it develops.*

## Establishing a set of governing bylaws

Establishing a set of agreed upon principles and rules that govern the work of an organization can be one of the most painful and difficult processes any organization attempts. However, an organization's success depends in large part on how well it goes about establishing its structures and methods for making decisions and implementing the programs it develops. In fact, a well-developed set of bylaws will facilitate the work of the organization.

Adoption by the membership of the organization of an agreed upon set of rules that guide the conduct of the organization may also make difficult decisions less divisive. A well-developed set of guidelines for decision-making can make it easier to discuss difficult issues without the debate getting personal and causing irreparable damage to the relationships among the leadership of the organization. There are many instances where confusion over how decisions would be made or who was responsible for certain decisions have caused otherwise effective organizations to disintegrate.

The following are some common questions most groups need to consider as a first step in establishing a governing structure:

### I. What is the name of the organization?

### II. What is the purpose or mission of the organization?

### III. What kind of corporate structure will be established?

A perpetual board? Membership? Other?  
 Who are the initial board members?  
 Will there be an annual meeting?  
 Where and when will the annual meeting be held?  
 Where and when will regular meetings be held?  
 What are the meeting notice requirements?  
 What constitutes a quorum for a meeting?  
 How will decisions be made?  
 What role will committees play?

### IV. Terms and election of directors

If there will be a board, how many directors will there be?  
 What is the role and responsibility of a director?  
 How long are the terms?  
 How are they replaced and/or removed?  
 How is the size of the board increased or decreased?

### V. Membership

If there are going to be members, what are the criteria for membership?  
 Will there be a fee for membership?  
 What will be the relationship between members and decision-making?  
 What can members expect from the organization?  
 What are the expectations for members?  
 Are any groups of people being excluded from membership by virtue of their race, sex, national origin or income?

*A well-developed set of guidelines for decision-making can make it easier to discuss difficult issues without the debate getting personal and causing irreparable damage to the relationships among the leadership of the organization.*

## VI. Officers

If there are going to be officers, how many are needed?  
What are the criteria for being an officer?  
What are their responsibilities?  
How long are their terms?  
Will there be term limits?  
How are officers replaced or removed?

## VII. Committees

What is the purpose for a committee?  
How will committees be formed?  
When will they meet?  
How should they interact with the board?  
How will they make decisions?  
Who can serve on a committee?

## VIII. Amendments

How often will the bylaws be reviewed?  
What is the process for amending the bylaws?

## IX. Parliamentary authority

Is there a set of rules or decision-making tools that can be referenced in situations when a decision-making impasse is reached?

There are two general approaches to writing bylaws, the perpetual board and the membership organization. The perpetual board of directors model is where the board of directors is the organization. At the other extreme, is the membership model where the organization is an open group and the leadership is chosen from the group. Most not-for-profit corporations have organizational structures that lie somewhere in between. There may be a member organization with some sort of a board of directors.

We will briefly discuss how each of these models broadly addresses articles listed about

*Two general approaches to writing bylaws are used—the perpetual board and the membership organization.*

## I. WHAT IS THE NAME OF THE ORGANIZATION?

### Article I -Name (Board and Membership Model)

The name of the organization shall be the "\_\_\_\_\_ Community Association." It shall incorporate under Missouri statutes for not-for-profit corporations.

The title requirements do not differ between the membership model and the perpetual board model. It is important to use **exactly** the same corporate name on all the various paperwork used to file for incorporation.

*Board and Membership Model*

## II. WHAT IS THE PURPOSE OR MISSION OF THE ORGANIZATION?

### Article II – Purpose (Board of Directors Model)

#### *Board of Directors Model*

The “\_\_\_\_\_ Community Association” is aware of the many challenges facing the community of \_\_\_\_\_. The purpose of this association is to build partnerships between the city of \_\_\_\_\_ and the residents of the community and other organizations that can provide support to the community’s development efforts.

The \_\_\_\_\_ Community Association is dedicated to improving the quality of life for the residents of the City of \_\_\_\_\_, assuring access to available resources and services.

### Article II – Purpose (Membership Model)

#### *Membership Model*

The \_\_\_\_\_ Community Association is a coalition of local agencies, organizations, and institutions that serve the general welfare, health, education, and other social needs of our community. The \_\_\_\_\_ Community Association is dedicated to improving the quality of life of community residents and assuring the access of those residents to available resources and services.

*There are generally few differences in how the models approach the purpose. Where they will generally differ is in how they accomplish the work. In a membership model they will almost always involve the members of the organization in the work and what they would like to accomplish. In a board model they generally focus on defining a specific purpose for the organization that relates to some specific community issue.*

## III. WHAT KIND OF CORPORATE STRUCTURE WILL BE ESTABLISHED?

### Article III – Board of Directors (Board of Directors Model)

#### *Board of Directors Model*

#### Section 1. Management

The affairs of the corporation shall be managed, supervised, and controlled by a self-perpetuating board of directors consisting of not less than three (3) and not more than (15) persons (as decided from time to time by the board of directors) in a manner specified in section 2.

#### Section 2. Meetings

The annual meeting of the board of directors shall be held on the second Thursday of the month of January. All meetings of the board, regular or special, shall be held at the principal office of the corporation, or at such time and place within or without the State of Missouri as shall be determined by the chairperson or, if not designated by the chairperson, then as determined by the board of directors. The annual meeting shall be held for the purpose of electing officers and directors and transacting other business as may come before the meeting. Special meetings of the board of directors may be called by or at the request of the chairperson, or in the absence of the chairperson, by the secretary, or any two directors.

Members of the board of directors or of any committees designated by the board of directors may participate in a meeting of the board or committee by means of conference telephone or similar communications technology whereby all persons participating in the meeting can communicate with each other. Participation in a meeting in this manner shall constitute presence in person at the meeting.

Any action which is required to be or may be taken at a meeting of the directors, or of any committee of the directors, may be taken without a meeting if consents in writing set forth the action to be taken and are signed by all members of the board or of the committee as the case may be. The consent shall have the same force as the effect of a unanimous vote at a meeting duly held and may be stated as such in any certificate or document. The secretary shall file the consents with the minutes of the meetings of the board of directors or of the committee as the case may be.

#### Section 3. Notice

Notice of any annual or special meeting shall be given at least five days prior thereto by written notice delivered personally or mailed to each director at such director's business or home address. If mailed, such notices shall be deemed to be delivered when deposited in the United States mail in a sealed envelope so addressed with postage thereon prepaid. Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully convened. Neither the business to be transacted, nor the purpose of any regular or special meeting of the board of directors needs to be specified in the notice or waiver of notice of such meeting.

#### Section 4. Quorum

Two-thirds of the incumbent members of the board of directors shall constitute a quorum for the transacting of business at any meeting of the board of directors.

#### Section 5. Manner of Acting

The act of the majority of the directors present at a meeting of the directors at which a quorum is present shall be the act of the board of directors unless a greater number is required under the Articles of Incorporation, these bylaws, or any applicable laws of the state of Missouri.

The chairperson shall only cast a vote pertaining to decisions made by the board of directors when a vote of the regular board members results in a tie. In such an instance the vote of the chairperson is required.

***Board of Directors  
Model  
(continued)***

***A Board Model will  
describe when it  
meets, whom it will  
serve, how the board  
will make decisions,  
how many directors  
constitutes a quorum  
and how people will  
be notified of meeting  
in Article III***

## Membership Model

### Article III -Membership (Membership Model)

#### Section 1. Individual Membership Criteria

Individuals are eligible for membership in the \_\_\_\_\_ Community Association if they meet any one of the following criteria :

- a. reside in \_\_\_\_\_ community, and/or
- b. employed by or volunteer with a community-based agency, or organization or institution as defined in Article II (purpose), and qualified in Article III, Section 2 (Affiliative Eligibility), and or
- c. employed by an agency or location outside the community that provides a significant level of services to local residents in those areas defined in Article II (purpose) and qualified in Article III, Section 2 (Affiliative Eligibility).

#### Section 2. Affiliative Eligibility

Entities with which affiliation make an individual eligible for membership must meet the following criteria:

- a. All services must be provided on a non-discriminatory basis.
- b. The entity must provide services with the goal of improving the quality of life for residents in the areas of welfare, health, education and other social services.
- c. The entity must have an active presence in the community, either in the form of an established office or meeting place, or the regular presence of a representative working in the community.

#### Section 3. Institutional Membership

Any agency, organization or institution which meet the criteria outlined in Article III, Section 2, may join as an institutional member, entitled to a single vote.

#### Section 4. Membership Dues

Annual dues of one dollar per individual or five dollars per institution shall be assessed, payable at the beginning of the calendar year or at the time membership is sought.

#### Section 5. Termination of Membership

Membership may be terminated voluntarily by the member or by the Community Association under the following conditions:

- a. Nonpayment of annual dues, and/or
- b. failure to attend meetings for a period of six calendar months, and/or
- c. just cause.

*Article III is where the organization clearly defines what kind of organization it is and how it will operate.*

*Article III is where the organization clearly defines what kind of organization it is and how it will operate. A Board Model will describe when it meets, whom it will serve, how the board will make decisions, how many directors constitute a quorum and how people will be notified of meeting in Article III. Some of these things need to be clearly spelled out because there are generally fewer people involved, so any disagreements over how the organization makes decisions can cause a great deal of harm to the organization itself. Things like what constitutes a quorum and how people will be notified are important to spell out very clearly. The annual meeting is important to the public. It is the annual meeting where the organization holds itself most accountable to the public.*



*A membership organization generally needs to focus more on how one becomes a member. They need to be certain that any membership requirements do not discriminate against protected classes of citizens. This model has three types of membership. This is most common when the membership is describing an organization that will include people who represent other organizations. There are many variations depending on who is participating in the organization and how the group wants to classify memberships. The important thing to remember is that you cannot use memberships as a way to exclude protected classes of people and still be a 501(c)(3) corporation.*

*Both models include a termination clause. This is critical for an organization. It may be difficult for organizations to reach quorum because some people are not participating. A termination clause gives the organization some flexibility that may be necessary in order to be able to conduct business on a regular basis.*

#### IV. TERMS AND ELECTION OF DIRECTORS

##### **Article IV -Terms and Election of Directors (Board of Directors Model)**

###### Section 1. Terms

Each director shall be elected for a term of two (2) years, at an annual meeting of the board of directors. Vacancies occurring on the board of directors, including vacancies due to an increase in the number of directors, may be filled by the directors then in office. Any director may succeed himself/herself indefinitely.

###### Section 2. Vacancies

When vacancies occur, the board shall consider the following criteria for the selection of board members:

- a. Two-thirds (2/3) of board members shall be residents or business owners in the City of \_\_\_\_\_
- b. The board of directors shall regularly seek the advice and counsel of the beneficiaries of all activities promoted by the Corporation in all its decisions.
- c. The initial members of the board of directors shall be:

**(INCLUDE THE NAMES, ADDRESSES AND TITLES OF ALL BOARD MEMBERS AT THE TIME THE BYLAWS ARE ADOPTED.)**

###### Section 3. Removal

The board of directors may, by resolution adopted by a majority of the directors, remove a fellow board member for just cause. If a board member is absent from three consecutive regular meetings of the board of directors, that board member may be removed by an action of the majority of the board members present at a regular or special meeting.

##### **Article IV -Membership Voting and Meetings (Membership Model)**

###### Section 1. Voting

Both individual and institutional members are eligible to vote thirty (30) days after initial membership dues have been paid. Once membership has been established, by payment of dues and the waiting period, any

***Board of Directors  
Model***

***Membership Model***

## Membership Model (continued)

member in good standing shall be entitled to vote on any issue put before the \_\_\_\_\_ Community Association.

### Section 2. Meetings

- a) Called: Meetings of the \_\_\_\_\_ Community Association shall be held on the first Monday of the month at 8:00 a.m. at the \_\_\_\_\_ unless a different time and place is specified in the monthly meeting announcement.
- b) Quorum: Fifteen members shall constitute a quorum and the action of a majority of the members present and voting shall be the action of the \_\_\_\_\_ Community Association.

### Section 3. Special Meetings

- a) Called: Special meetings of the \_\_\_\_\_ Community Association may be called either 1) by the chairperson; or 2) by order of five (5) members. Upon failure of the chairperson to act on such a request or order within thirty (30) days it shall become the duty of the vice chairperson to call the special meeting.
- b) Notice: Notice of special \_\_\_\_\_ Community Association meetings shall be given by the secretary to all members, either by mail or telephone. The notice shall state the date, time and place as well as the purpose of the meeting.
- c) Quorum: Fifteen members shall constitute a quorum for a special meeting and the action of a majority of the members present and voting shall be the action of the \_\_\_\_\_ Community Association.

*In this article there are few similarities between the two models. The board model focuses on how the board will be formed and changed. It also lists who will be the initial members of the board. Since there is no board in the membership model they discuss some of the nuts and bolts decision-making policies. In the member model note how it appears that most of the decision-making will be made by the entire membership. In some cases the bylaws may give officers more control over decisions. However, in this model the membership, through actions of the members, can grant certain decision-making authority to its officers.*

## V. OFFICERS

### Article V -Officers (Board and Membership Model)

## Board and Membership Model

### Section 1. Officers

- a) Officers: The officers of the \_\_\_\_\_ Community Association shall be the Chairperson, Vice Chairperson, Secretary, Treasurer and Sergeant-at-Arms.
- b) Term: Each officer shall take office at the January meeting and shall serve for a term of two years.
- c) Removal: Motions requesting the removal of an officer for not performing the duties of his/her office may only be entertained at a regular meeting. The proposed action must be included on the pre-meeting announcement agenda. Such action requires approval of two-thirds of the membership present at the meeting.
- d) Duties: The officers shall perform those duties customarily assigned to the offices held.

- 1) Chairperson -The chairperson shall preside at the meetings of the \_\_\_\_\_ Community Association, shall make committee appointments, and shall otherwise be responsible for the conduct of the business of the organization.
- 2) Vice Chairperson -The vice chairperson shall assist the chairperson as may be requested by him/her, and shall perform the duties of the chairperson or secretary in his/her absence or in the event of his/her inability or refusal to act.
- 3) Secretary -The secretary shall be responsible for keeping the minutes of the meetings of the corporation and distributing copies of these minutes to all current members at least a week prior to the next meeting. They shall see that all notices are duly given in accordance with the provisions of these by-laws; maintain a list of members; and in general, perform all duties incident to the office of secretary.
- 4) Treasurer -The treasurer shall be responsible for keeping and receiving records of all the funds of the \_\_\_\_\_ Community Association; deposit such funds in a depository approved by the officers; and pay authorized expenses upon order of the officers.
- 5) Sergeant-at-Arms -The sergeant-at-arms shall act as the parliamentarian as defined in Robert's Rules of Order Revised. The sergeant-at-arms shall be responsible for facilitating the meetings according to Article IX a.

#### Section 2. Past Chairperson

The past chairperson shall serve as an ex-officio officer providing assistance to the chairperson and other officers until a transition has been completed.

*These officer descriptions are fairly generic. The sergeant-at-arms is an officer's position that is rarely used anymore as an official officer of an organization. It was included here because the role of parliamentarian is an important one that needs to be considered when putting the organization together. There may not be an officially designated parliamentarian as a member of the executive committee but that role should be included somewhere. Often it is the parliamentarian who is the arbiter of disputes related to the rules of the organization. It is an important function.*

*These descriptions should serve as a point of departure for deciding what roles should be developed or ascribed for each of the officers. Actions of the organization can further define the roles. One caution is to resist having too many officers. Most small organizations can be effective with simply a chairperson and a secretary/treasurer. It may become difficult for smaller organizations to find enough candidates for some offices. In addition, the length of term is critical. If an organization is going to be handling multi-year projects and grants, then an ascension system is one recommended approach where the only person elected each year is the treasurer. In the second year they become the secretary and in the third the chairperson. Another approach is to elect officers for at least two years and stagger the elections so that not all the offices are changing at the same time. It is important that the board has some stability if there will be multi-year grants and projects.*

***Board and  
Membership Model  
(continued)***

***One caution is to  
resist having too  
many officers. Most  
small organizations  
can be effective with  
simply a  
chairperson and a  
secretary/treasurer.***

## VI. COMMITTEES

### *Board of Directors Model*

#### **Article VI -Committees (Board of Directors Model)**

The board of directors, as necessary, may designate regular or special project committees, or such committees as designated by the chairperson.

- a) The Chairperson of a committee shall be a representative from the board of directors.
- b) The chairperson of the \_\_\_\_\_ Community Association shall be an ex-officio member of all committees.
- c) Meetings of each committee may be called by its chairperson or by the chairperson of the \_\_\_\_\_ Community Association on five days notice to the members of the committee. Committees shall meet as often as is necessary to conduct their business.
- d) All committees shall keep brief minutes of committee meetings and submit a summary of the minutes at regular board meetings.
- e) The action of a majority of the members present and voting at a committee meeting shall be the action of the committee.
- f) Each board member shall be an active member of one or more committees.

### *Membership Model*

#### **Article VI -Committees (Membership Model)**

The membership of the Community Association, as necessary, may designate regular or special project committees; or such committees as designated by the chairperson.

- a) The chairperson of each committee shall be elected by members of the committee or may be appointed by the \_\_\_\_\_ Community Association chairperson.
- b) The chairperson of the \_\_\_\_\_ Community Association shall be an ex-officio member of all committees. At the chairperson's discretion, the past-chairperson or vice chairperson may be asked by the chairperson to serve in this role.
- c) Meetings of each committee may be called by its chairperson or by the \_\_\_\_\_ Community Association chairperson on five days notice to the members of the committee. Committees shall meet as often as is necessary to conduct their business.
- d) All committees shall keep brief minutes of committee meetings and submit a summary of the minutes at regular \_\_\_\_\_ Community Association meetings.
- e) The action of a majority of the members present and voting at a committee meeting shall be the action of the committee.

***What distinguishes committees in a membership organization from a board model is that they are usually comprised of the membership and not the general public.***

*Committees are critical to an organization. It is in committees where the work is done. This may be especially critical for perpetual boards. It is in committees where others from the community can get involved. Sometimes there are requirements that a board member serve on the committee. Often it is a good idea to have a board member serve on a committee (it is common to see them as chairpersons) so that they can report progress of the committee to the rest of the board.*

*What distinguishes committees in a membership organization from a board model is that they are usually comprised of the membership and not the public. Sometimes they will include outside parties, but most of the time the committees are used to organize the work of the membership.*

*In writing bylaws for committees it is critical that there be a way of making the committee accountable to the rest of the organization. It is also important to be able to eliminate committees that are no longer valid. Instead of creating specific standing committees it may make more sense to have policies in place that allow for the formation and elimination of committees. It helps an organization make changes as needed.*

## VII. AMENDMENTS

### **Article VII -Amendments (Board of Directors Model)**

These bylaws may be amended by a two-thirds majority vote of the members present and voting at any duly called meeting or special meeting of the corporation called for that purpose. Each proposed amendment shall be presented at a meeting prior to being voted upon and shall be printed in the minutes of that meeting.

### **Article VII -Amendments (Membership Model)**

These bylaws may be amended by a two-thirds majority vote of the Community Association members present and voting at any duly called meeting or special meeting of the Community Association called for that purpose. Each proposed amendment shall be presented at a meeting prior to being voted upon and shall be printed in the minutes of that meeting. Each proposed amendment shall specify the date of its effectiveness and be presented at a meeting prior to being voted upon and printed in the minutes of that meeting.

*The organization must be able to amend its bylaws. It should not be too easy, but it should be possible. It is helpful to have a provision included in the annual meeting section that requires the leadership to institute a review of the bylaws on an annual or biannual basis.*

## VIII. PARLIAMENTARY AUTHORITY

### **Article VIII -Parliamentary Authority (Board of Directors and Board and Membership Model)**

- a) Robert's Rules of Order Revised shall govern the Community Association in all cases in which they are applicable and in which they are not in conflict with these bylaws.
- b) The above bylaws are hereby adopted and made immediately effective by affirmative vote by the undersigned directors this \_\_\_\_ day of \_\_\_\_, 20\_\_.

*Adopting a parliamentary authority like Robert's Rules of Order gives the organization a fallback position if something comes up that is not addressed specifically in the bylaws.*

***Board of Directors  
Model***

***Membership Model***

***Board and  
Membership Model***

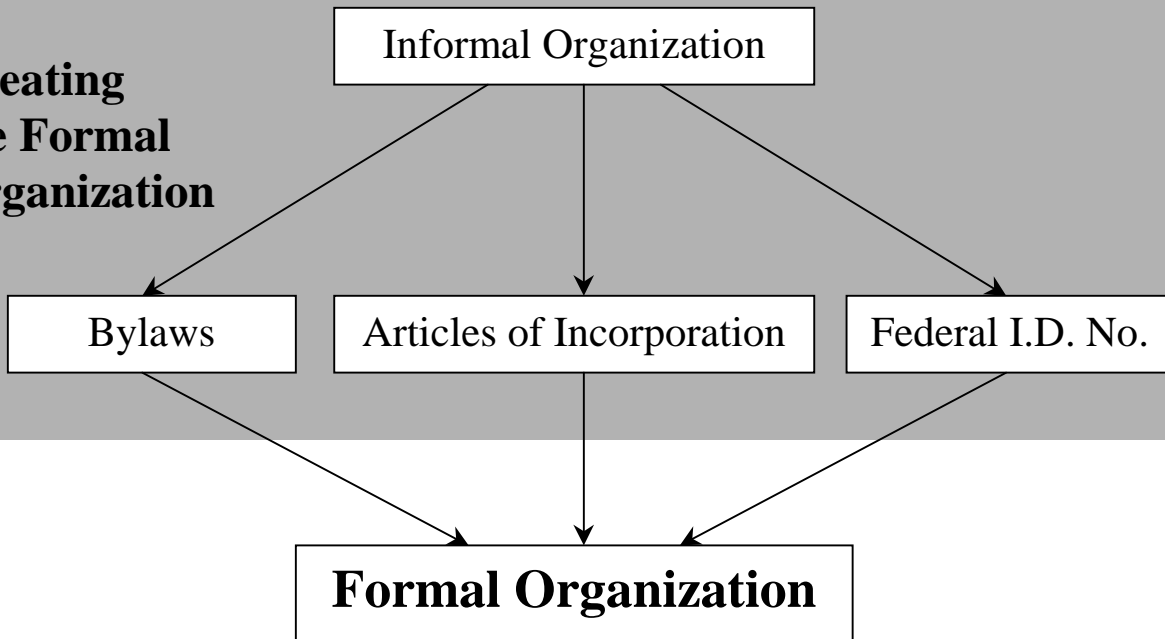
# SECTION 3

## COMPLETING THE APPLICATION FORMS

## APPLICATION STEPS

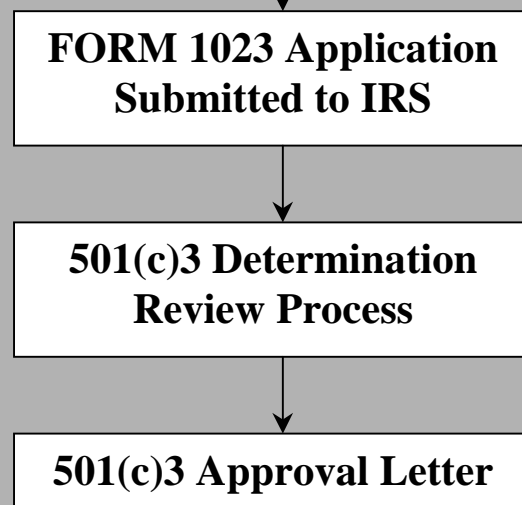
### STEP 1

#### Creating the Formal Organization



### STEP 2

#### Creating the 501(c)3



## MAJOR COMPONENTS OF A 501(c)3 APPLICATION

**Articles of Incorporation (approved by Missouri Secretary of State)**

**Bylaws**

**Federal I.D. Number (Employer Identification Number)**

**501(c)(3) Application Form**

**Supporting Document**

This section of the book will provide specific guidance in completing the forms to:

- a. Incorporate as a not-for-profit organization in Missouri (Pages 28-30).
- b. Apply for 501(c)(3) designation from the Internal Revenue Service (Pages 31-57)

One of the biggest points of confusion for many people is to assume that once they have successfully completed the filing of their organization's Articles of Incorporation with the Missouri secretary of state's office that they are now a 501(c)(3) organization. **This is not correct!** To become a 501(c)(3) organization, the second step of completing the Form 1023 Application and submitting it for approval by the IRS must be completed.

As noted in section 1 the process of incorporating as a not-for-profit corporation in the state of Missouri is often confused with the Federal 501(c)(3) application process. Incorporating in Missouri as not-for-profit does not automatically make an organization a 501(c)(3) corporation. The 501(c)(3) process is separate from the process of establishing the not-for-profit in Missouri. Getting incorporated in Missouri is a part of a first step.

Step 1 is moving from an often loose, informal structure to a formal legal structure with decision-making and accounting procedures. These procedures do not need to be complex, but they do need to be accurate and well maintained. We have already talked about creating bylaws which provide structure to the organization. The other two components of Step 1 are the Articles of Incorporation (which results from the state incorporation process and the Employer Identification number. The next few pages will take you through those processes.

Completing the three phases of Step 1 (Bylaws, Articles of Incorporation, and Employer Identification Number) transforms the informal group into a formal not-for-profit corporation. However, the organization is still not a 501(c)(3). Many of the necessary prerequisites for filing a 501(c)(3) are included in Step 1. Step 2 includes the actual process of filing the 501(c)(3) application.

Step 2 includes completing and filing the forms that the Internal Revenue Service will need to review in order to make the determination whether or not your not-for-profit organization qualifies for 501(c)(3) designation

The remainder of this workbook will take you through the steps of becoming incorporated in Missouri, filing for an Employer identification number, and preparing the application for 501(c)(3) designation by the Internal Revenue Service.

***Completing the three phases of Step 1 (Bylaws, Articles of Incorporation, and Employer Identification Number) transforms the informal group into a formal not-for-profit corporation. However, the organization is still not a 501(c)(3).***



## THE APPROVAL PROCESS

Completing the application process is often not the end of the line for the organization. In order to actually receive 501(c)(3) designation, the group will need to be approved by the Internal Revenue Service. The time it takes to actually receive an exemption once the application is filed can vary.

**Usually a group can plan on three to six months before receiving approval.** Occasionally a group will receive it much more quickly, but most often it takes at least three months.

Once the application is submitted, the IRS will assign the application to an agent for review. The IRS agent will study the application in order to determine that everything (including supporting documentation) is included in the application and to evaluate the application to see whether or not it meets the exemption criteria for a 501(c)(3).

In most instances a letter will be sent back to the group filing the application for the 501(c)(3) (specifically the person identified on Page 1 of Form 1023) asking for more information. The letter will almost always ask for more information. Sometimes there is something missing or filled out incorrectly and they will request the missing pieces. Normally they will ask for further clarification on something in the application.

They are most often interested in the responses to the narrative sections in part II. **When determining who should be listed on the application, it is always a good idea to make sure the person who actually completed the application is listed as the contact person on the front of the application even if this person is not an officer in the corporation. This will help facilitate the process of getting the supporting documentation in a timely manner.**

In addition to the request for information the, IRS will assign a due date. Please take this date seriously. If they do not receive the materials they requested by the due date, the IRS could cancel the application. The applicant would forfeit their filing fee and have to start over. If it is not possible to get the work done by the due date, please make sure that the contact person from the IRS reviewing the application is notified. They will normally grant an extension but it must be requested. The phone number of the contact person will be included in the letter.

As a matter of course, once the group receives a letter from the IRS it is a good idea to call that person and ask for clarification. Sometimes the letter requesting more information is vague or difficult to understand. Do not be afraid to call and ask for clarity. Pay close attention to what they say and then try to answer their questions as accurately as possible. They will then take the new information and continue reviewing the application.

Sometimes there will be a follow-up letter asking for even further clarification. In fact, this can occur two or three times. Try not to get discouraged. In most instances a group can work out the differences. Having said that, the IRS may request some changes to the organization in order to receive designation as a 501 (c)(3). They may suggest changing some of the accounting or funding schemes of the group. These requests need to be taken seriously.

If the process seems unfair or slow do not hesitate to contact the congressional representative in your area. They can be very helpful in expediting the process. Often, IRS representatives are very busy and do not place a high priority on reviewing 501(c)(3) applications. Congressional representatives (or their staffs) can be very helpful in getting clarification particularly in situations where a group feels it is not getting a fair hearing.

Help is out there for groups that feel this may be too big a project for its members. Sometimes it is free and sometimes it is not. For instance, an attorney's advice can be very helpful, particularly as a person to review the application to make sure that there are no glaring legal mistakes. There are attorneys who will do these kinds of projects for free, but it may take some time. Paying customers generally get attention first.

**Don't assume that all attorneys are familiar with the 501(c)(3) application process. Be sure to ask them about their experience.** The Missouri Bar Association may be helpful in finding attorneys who are interested in working with not-for-profits. In addition to attorneys, accountants will sometimes provide assistance to local groups applying for a 501 (c)(3).

Once a group has met all the requirements, it will receive a letter from the IRS notifying it that the group has been approved. This letter will also spell out the conditions of acceptance. Please read those conditions carefully and take them seriously. The 501(c)(3) tax exemption can be beneficial to an organization, but it is also a big responsibility.

## ONCE YOU ARE APPROVED

### Annual Reporting Requirements

State of Missouri



State Incorporation

Once your organization has been approved as a 501(c)(3) organization by the Internal Revenue Service, you will still need to maintain annual contact with both the Missouri Secretary of State Office and the Internal Revenue Service.

The Missouri Office of Secretary of State requires that your not-for-profit organization renew its state incorporation papers on an annual basis. The registered agent designated for the organization will receive an annual renewal form in the early summer. The form will need to be completed and filed with the secretary of state in order to maintain the organization's status as a not-for-profit in Missouri.

Internal Revenue Service



Form 990

Likewise, the IRS uses Form 990 as its annual reporting requirements. If your organization is designated a 501(c)(3) corporation then the organization will need to file annual tax returns. There are exceptions to this rule (if the organization is very small) but for most groups they will file a Form 990 with the IRS in the spring of each year during the tax season.

**Failure to complete both the state incorporation renewal form and/or the IRS Form 990 every year could place your state incorporation and/ or 501(c)(3) status in jeopardy.**

## INCORPORATING IN MISSOURI

When your organization has Articles of Incorporation filed with the Secretary of State, it means your organization is recognized as a not-for-profit corporation in the state of Missouri.

If your application is accepted, your corporation will be exempt from paying taxes to the state of Missouri as long as your organization meets the state's criteria. A copy of your Articles of Incorporation should be included with your 501(c)(3) application.

Question 1 -The name of the corporation should appear exactly as you want it to appear on all your records and transactions. This name will identify your organization in all your dealings with the state of Missouri and the IRS.

Question 2 -The state wants to know who is going to benefit from the activities of your organization. Will the benefits be for the good of the public or will they advance the interests of a membership group or a specific segment of the population? This is important because all 501(c)(3) applicants must be "public" benefit corporations.

Question 3 -The answer here is usually "perpetual." If your organization will be temporary, then you will write in the date you want the corporation to end. If the intention is to create a permanent corporation then write in "perpetual". Writing "perpetual" does not mean the corporation must go on, it just means at the time of application there is no plan to terminate the corporation in the foreseeable future.

Question 4 -The registered agent is the person the secretary of state's office will communicate with on an annual basis. They need not be an officer of the corporation. However, they do need to be active in the organization. The registered agent will be the person who receives the Articles of Incorporation and will receive the annual renewal notice.

The annual renewal notice is a letter sent to all not-for-profit corporations asking if they want to continue operating as a corporation in the state of Missouri. This is usually a one-page questionnaire the registered agent needs to complete, sign and return to the secretary of state's office with the required fee. This is a simple but critical job for the not-for-profit corporation. **If your organization is successful in obtaining 501(c)(3) status you must keep the annual registration up to date or jeopardize the not-for-profit status of the corporation.**

Question 5 -The incorporators represent the corporation. They can be officers and/or board members. There should be at least three incorporators listed, but it is not necessary to include everyone who will serve on the board. In fact, it is probably more manageable to limit the number of incorporators to three or four because the application will include original signatures for all the incorporators.

Question 6 - If the corporation maintains a membership this should be marked "yes." If the corporation is the board of directors model and there is no other membership, it is not technically a membership organization, so "no" should be the response. How you answer this question will not affect whether or not you will qualify as a 501(c)(3), so feel free to answer either "yes" or "no."

Question 7 -Both the state of Missouri and the IRS are concerned about what will happen to the assets of the corporation should it decide to dissolve. Attached to the application (See page titled "Important notice for Missouri not-for-profit corporations.") should be a page that includes a list of statements that should be included with your Articles of Incorporation Application. **One of the statements is called "Dissolution Clause." This paragraph must be included with your Articles of Incorporation if you eventually want 501(c)(3) status.** For question 7 write "see attached dissolution clause" and submit a copy of the "Important notice for Missouri not-for-profit corporations" with your Articles of Incorporation

Question 8 -Please describe the purpose of your corporation. It should be a short statement that describes why you are forming this corporation. In addition, include the statement "see attached purpose clause" which refers to the purpose statement described in the paper called "Important notice for Missouri not-for-profit corporations." This purpose statement must also be included with the Articles of Incorporation if you want to apply for 501(c)(3) status.

Question 9 -Unless there is a specific date when you want your corporation to officially begin, leave this question blank. If you leave it blank, your corporation will begin on the date written on your copy of the Articles of Incorporation when they are returned by the Secretary of State.

Finally, have all the incorporators sign the application. You will need to do this twice because the secretary of state will need two original copies of the application. Make sure each application has a copy of the statements mentioned in questions seven and eight attached to them. Mail the two completed applications to the Secretary of State at the address on the top of the application. Don't forget to send the filing fee with your application. The amount of the fee will also be written on the front of the application. One copy of the Articles of Incorporation will be kept by the Secretary of State's office for its records and the other will be returned to you. Once the articles have the stamp of the Secretary of State on them then you are an official not-for-profit corporation in the state of Missouri.

When you submit your application for the 501(c)(3), you will need to include a copy of the Articles of Incorporation with the application.

**Make sure that the copy of the Articles of Incorporation you send to the IRS includes the page with the purpose statement and dissolution clause attached to it. Otherwise, the processing of your 501(c)(3) application will be delayed.**



# State of Missouri

Matt Blunt, Secretary of State

Corporations Division  
P.O. Box 778, Jefferson City, MO 65102

James C. Kirkpatrick State Information Center  
600 W. Main Street, Rm 322, Jefferson City, MO 65101

## Articles of Incorporation of a Nonprofit Corporation

(To be submitted in duplicate with a filing fee of \$25)

The undersigned natural person(s) of the age of eighteen years or more for the purpose of forming a corporation under the Missouri Nonprofit Corporation Act adopt the following Articles of Incorporation:

- (1) The name of the corporation is \_\_\_\_\_
- (2) This corporation is a \_\_\_\_\_ Benefit Corporation.  
(Public or Mutual)
- (3) The period of duration of the corporation is \_\_\_\_\_  
("Perpetual" unless stated otherwise)
- (4) The name and street address of the Registered Agent and Registered Office in Missouri is:  
\_\_\_\_\_  
Name Address City/State/Zip
- (5) The name(s) and address(es) of each incorporator:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- (6) Does the corporation have members? YES \_\_\_\_\_ NO \_\_\_\_\_
- (7) The assets of the corporation will be distributed on dissolution as follows: \_\_\_\_\_  
\_\_\_\_\_
- (8) The corporation is formed for the following purpose(s): \_\_\_\_\_  
\_\_\_\_\_
- (9) The effective date of this document is the date it is filed by the Secretary of State of Missouri, unless you indicate a future date, as follows: \_\_\_\_\_  
(Date may not be more than 90 days after the filing date in this Office)

In affirmation of the facts stated above,

Signed by Incorporator(s):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## IMPORTANT NOTICE FOR PERSONS FORMING MISSOURI NOT-FOR-PROFIT CORPORATIONS

If you wish to obtain a 501(c)(3) tax-exempt status from the IRS please review the following instructions.

### INSTRUCTIONS

In order to come within the purview of Section 501(c)(3) of the Internal Revenue Code you must include the statements below in your Articles of Incorporation as filed with the secretary of state. PLEASE NOTE THAT YOUR PURPOSE CLAUSE MUST INCLUDE MORE INFORMATION THAN STATED BELOW. THIS SAMPLE CLAUSE JUST SATISFIES IRS PURPOSES AND IS NOT SUFFICIENT BY ITSELF FOR THE SECRETARY OF STATE'S OFFICE. OUR OFFICE REQUIRES ADDITIONAL INFORMATION IN THE PURPOSE CLAUSE THAT INDICATES WHAT THE CORPORATION IS DOING. After the secretary of state has returned the articles to you, furnish a copy to the IRS when applying for the tax-exempt status.

PURPOSE: The corporation is organized exclusively for charitable, educational, religious or scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code.

INUREMENT OF INCOME: No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to, its members, directors, officers or other private persons except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered.

LEGISLATIVE OR POLITICAL ACTIVITIES: No substantial part of the activities of the corporation shall be the carrying on of propaganda or otherwise attempting to influence legislation, and the corporation shall not participate in or intervene (including the publishing or distribution of statements) in any political campaign on behalf of any candidate for public office.

OPERATIONAL LIMITATIONS: Notwithstanding any other provisions of these articles, the corporation shall not carry on any other activities not permitted to be carried on (a) by a corporation exempt from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code of 1954 (or the corresponding provision of any future United States Internal Revenue Law) or (b) by a corporation, contributions to which are deductible under Section 170(c)2 of the Internal Revenue Code of 1954 (or the corresponding provision of any future United States Internal Revenue Law).

DISSOLUTION CLAUSE: Upon the dissolution of the corporation, the board of directors shall, after paying provisions for the payment of all of the liabilities of the corporation, dispose of all the assets of the corporation exclusively for the purposes of the corporation in such manner, or to such organization or organizations organized and operated exclusively for charitable, educational, religious or scientific purposes as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1954 (or the corresponding provision of any future United States Internal Revenue Law), as the board of directors shall determine.

Any such assets not so disposed of shall be disposed of by the circuit court of the county in which the principal office of the corporation is then located, exclusively for such purposes or to such organization(s), as said court shall determine, which are organized and operated exclusively for such purposes.

# 501c3 APPLICATION FORMS

- Form SS4 - Employer Identification Number (EIN)
- Form 8718 - User Fees for Exempt Organizations
- Form 872-C – Consent Agreement (2 Originals)
- Form 1023 – The Principal Application
- Schedules

Pages 32 – 57 will assist you in completing the forms listed above

## APPLICATION FOR EMPLOYER IDENTIFICATION NUMBER

In order to apply for a 501(c)(3) designation, a not-for-profit corporation will need an employer identification number (EIN). The IRS will not consider an application that does not have an EIN even if the corporation has no employees and does not think it will ever have paid staff.

The SS-4 form is the application to be completed in order to receive the employer identification number. If a group needs the number quickly, it is possible to receive the number over the telephone. The telephone number for corporations filing in Missouri is (816) 926-5999. The application should be completed before calling the IRS for an employer identification number because they will ask for most of the information contained in the application. In addition, the SS-4 form will still need to be completed and filed with IRS in order to activate the employer identification number assigned to the corporation.

When the application is completed it should be sent to:

Internal Revenue Service Center  
Attn: Entity Control resource.  
Stop 6800  
2306 E. Bannister Rd.  
Kansas City, MO 64999

### FORM SS-4 APPLICATION

This is the same form any business or commercial entity needs to complete to get an employer identification number, so there are a lot of questions that are not necessary for a not-for-profit to complete.

**Questions 1 - 6** - This is the standard name and address section. It asks for the name and address of the applicant. Remember the applicant is the not-for-profit corporation so the name should read exactly the same as the name that appears on the Articles of Incorporation that was filed with the state of Missouri.

In question three the "care of" person should be the person responsible for taking care of the taxes for the corporation. It could be the treasurer. However, because there is turnover in the treasurer's position, **many times a not-for-profit will have someone either under contract or designated specifically to receive and manage tax information on behalf of the corporation.**

**Question 7** - The principal officer should be someone from the board. The most appropriate person is usually the president or chairperson of the corporation. Whoever is listed in question 7 will also need to provide his/her social security number.

**Question 8a** - Mark "Other nonprofit organization" and tell them what kind of a nonprofit corporation you are. Most nonprofits are applying as general nonprofits, so they will simply write "general" in the blank space. You can be more specific and state the specific type of nonprofit that you have formed.

**Question 9** - Mark "Other" and write "creating a nonprofit" in the space provided.

**Question 10** - The date the business started will be the date indicated on the Articles of Incorporation from the state of Missouri.

**Question 11** - Most not-for-profits will run their accounting year concurrent with the calendar year. If this is the case for your organization, write December as the closing month.

**Question 14** - Describe the purpose of the organization. There is no need to be extensive, but it should reflect what was written for the same question in your application for the Articles of Incorporation. For instance, a housing group may state its purpose as: to provide housing opportunities. Keep it simple and specific. The corporation bylaws should also be a helpful resource.

**Questions 15 and 16** are not applicable to most not-for-profits. However, if your organization will be selling services or products question 16 may apply.

**Question 17** - In most cases the answer will be "no." Remember that this question refers to the not-for-profit entity, not the person who happens to be completing the application on behalf of the organization. However, if you are an older organization and are uncertain whether or not an employer identification number was issued to your organization in the past, call the number provided above and ask them to search for your number under the name of the corporation. This is a good idea if your group has been an active corporation in Missouri for several years and has just recently decided to file for 501(c)(3) tax status.

If you answer "yes" complete questions 17b and 17c.

Where they ask for the name and title they are asking for the name of the person who is completing the application on behalf of the corporation and his/her title with the corporation. Sign and date the application and send it to the address for the Internal Revenue Service Center provided above.

**Remember, even if you telephone the IRS to file the application and receive the number over the phone, the application must still be mailed to the Internal Revenue Service Center at the above address.**

Form <b>SS-4</b> (Rev. April 2000) Department of the Treasury Internal Revenue Service	<b>Application for Employer Identification Number</b> (For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, certain individuals, and others. See instructions.) <b>► Keep a copy for your records.</b>	EIN _____ OMB No. 1545-0003
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**Please type or print clearly.**

<b>1</b> Name of applicant (legal name) (see instructions)	
<b>2</b> Trade name of business (if different from name on line 1)	<b>3</b> Executor, trustee, "care of" name
<b>4a</b> Mailing address (street address) (room, apt., or suite no.)	<b>5a</b> Business address (if different from address on lines 4a and 4b)
<b>4b</b> City, state, and ZIP code	<b>5b</b> City, state, and ZIP code
<b>6</b> County and state where principal business is located	
<b>7</b> Name of principal officer, general partner, grantor, owner, or trustor—SSN or ITIN may be required (see instructions) ► _____	

**8a** Type of entity (Check only one box.) (see instructions)  
**Caution:** If applicant is a limited liability company, see the instructions for line 8a.

<input type="checkbox"/> Sole proprietor (SSN) _____	<input type="checkbox"/> Estate (EIN of decedent) _____
<input type="checkbox"/> Partnership <input type="checkbox"/> Personal service corp.	<input type="checkbox"/> Plan administrator (SSN) _____
<input type="checkbox"/> REMIC <input type="checkbox"/> National Guard	<input type="checkbox"/> Other corporation (specify) ► _____
<input type="checkbox"/> State/local government <input type="checkbox"/> Farmers' cooperative	<input type="checkbox"/> Trust _____
<input type="checkbox"/> Church or church-controlled organization	<input checked="" type="checkbox"/> Federal government/military
<input type="checkbox"/> Other nonprofit organization (specify) ► _____ (enter GEN if applicable)	
<input type="checkbox"/> Other (specify) ► _____	

**8b** If a corporation, name the state or foreign country (if applicable) where incorporated

State _____	Foreign country _____
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**9** Reason for applying (Check only one box.) (see instructions)

<input type="checkbox"/> Started new business (specify type) ► _____	<input type="checkbox"/> Banking purpose (specify purpose) ► _____
<input type="checkbox"/> Hired employees (Check the box and see line 12.)	<input type="checkbox"/> Changed type of organization (specify new type) ► _____
<input type="checkbox"/> Created a pension plan (specify type) ► _____	<input type="checkbox"/> Purchased going business
	<input type="checkbox"/> Created a trust (specify type) ► _____
	<input type="checkbox"/> Other (specify) ► _____

**10** Date business started or acquired (month, day, year) (see instructions)

**11** Closing month of accounting year (see instructions)

**12** First date wages or annuities were paid or will be paid (month, day, year). **Note:** If applicant is a withholding agent, enter date income will first be paid to nonresident alien. (month, day, year) . . . . .

**13** Highest number of employees expected in the next 12 months. **Note:** If the applicant does not expect to have any employees during the period, enter -0-. (see instructions) . . . . .

	Nonagricultural	Agricultural	Household
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**14** Principal activity (see instructions) ► \_\_\_\_\_

**15** Is the principal business activity manufacturing? . . . . . ☐ Yes ☐ No  
 If "Yes," principal product and raw material used ► \_\_\_\_\_

**16** To whom are most of the products or services sold? Please check one box. ☐ Business (wholesale) ☐ N/A  
☐ Public (retail) ☐ Other (specify) ► \_\_\_\_\_

**17a** Has the applicant ever applied for an employer identification number for this or any other business? . . . . . ☐ Yes ☐ No  
**Note:** If "Yes," please complete lines 17b and 17c.

**17b** If you checked "Yes" on line 17a, give applicant's legal name and trade name shown on prior application, if different from line 1 or 2 above.  
 Legal name ► \_\_\_\_\_ Trade name ► \_\_\_\_\_

**17c** Approximate date when and city and state where the application was filed. Enter previous employer identification number if known.  
 Approximate date when filed (mo., day, year) City and state where filed Previous EIN \_\_\_\_\_

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.

	Business telephone number (include area code) ( )
	Fax telephone number (include area code) ( )

Name and title (Please type or print clearly.) ► \_\_\_\_\_

Signature ► \_\_\_\_\_ Date ► \_\_\_\_\_

**Note: Do not write below this line. For official use only.**

Please leave blank ►	Geo. _____	Ind. _____	Class _____	Size _____	Reason for applying _____
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## FORM 8718

The 8718 form is the bill. By completing this form an organization will learn how much money they will send the IRS for the filing fee. This form also lists the place that the application should be sent.

For Missouri applicants send the determination letter request Form (8718) and the 501 (c)(3) application (Form 1023) to:

Internal Revenue Service  
P.O. Box 192  
Covington, KY 41012-0192

### Question 3 - Type of Request

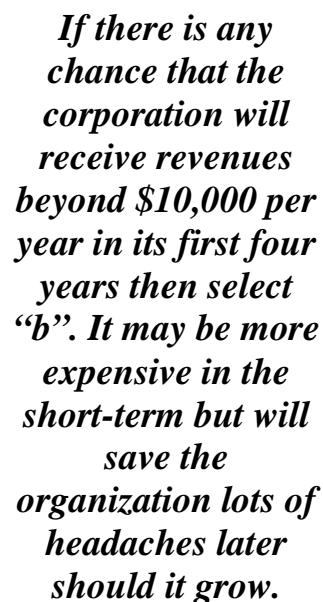
This is where you determine whether or not your organization plans on raising a lot of money. Almost all groups filing for a 501(c)(3) will be choosing between "a" or "b."

Select "a" for a user fee designation if your organization anticipates that it will remain small and employ no staff. If there is any chance that the corporation will receive revenues beyond \$10,000 per year in its first four years, select "b." It may be more expensive in the short-term, but it will save the organization headaches later should it grow.

Answer "b" if the group anticipates revenues of more than \$10,000 per year. If a group intends to have any staff or pursue grants, it is a good idea to go with "b." If there is an opportunity to grow, an organization should anticipate that it will grow early in this process so that they can be sure to file the appropriate fee.

Answer "c" if the group is filing a "group exemption letter." This is very rare and usually includes a separate application process. All groups that are single, free-standing organizations (which is the target for this manual) will choose between "a" and "b."

The fee is non-refundable. If your organization does not receive the 501(c)(3) designation, you will not get your money back. Instead they will likely designate the organization as a different type of not-for-profit such as 501 (c)(4) or 501 (c)(6). They are still tax exempt but do not have some of the other benefits such as being able to offer tax credits to donors.



***If there is any chance that the corporation will receive revenues beyond \$10,000 per year in its first four years then select "b". It may be more expensive in the short-term but will save the organization lots of headaches later should it grow.***

Form **8718**  
(Rev. November 2000)  
Department of the Treasury  
Internal Revenue Service

# **User Fee for Exempt Organization Determination Letter Request**

▶ **Attach this form to determination letter application.**  
(Form 8718 is NOT a determination letter application.)

For IRS Use Only

Control number \_\_\_\_\_  
Amount paid \_\_\_\_\_  
User fee screener \_\_\_\_\_

1 Name of organization

2 Employer Identification Number

**Caution:** Do not attach Form 8718 to an application for a pension plan determination letter. Use Form 8717 instead.

## 3 Type of request

Fee

a ☐ Initial request for a determination letter for:

- An exempt organization that has had annual gross receipts averaging not more than \$10,000 during the preceding 4 years, or
- A new organization that anticipates gross receipts averaging not more than \$10,000 during its first 4 years ▶ \$150

**Note:** If you checked box 3a, you must complete the Certification below.

### Certification

I certify that the annual gross receipts of \_\_\_\_\_  
name of organization

have averaged (or are expected to average) not more than \$10,000 during the preceding 4 (or the first 4) years of operation.

Signature ▶

Title ▶

b ☐ Initial request for a determination letter for:

- An exempt organization that has had annual gross receipts averaging more than \$10,000 during the preceding 4 years, or
- A new organization that anticipates gross receipts averaging more than \$10,000 during its first 4 years .. ▶ \$500

c ☐ Group exemption letters .. ▶ \$500

## Instructions

The law requires payment of a user fee with each application for a determination letter. The user fees are listed on line 3 above. For more information, see Rev. Proc. 2000-8, 2000-1, I.R.B. 230.

Check the box or boxes on line 3 for the type of application you are submitting. If you check box 3a, you must complete and sign the certification statement that appears under line 3a.

Attach to Form 8718 a check or money order payable to the United States Treasury for the full amount of the user fee. If you do not include the full amount, your application will be returned. Attach Form 8718 to your determination letter application.

Send the determination letter application and Form 8718 to:

Internal Revenue Service  
P.O. Box 192  
Covington, KY 41012-0192

If you are using express mail or a delivery service, send the application and Form 8718 to:

Internal Revenue Service  
201 West Rivercenter Blvd.  
Attn: Extracting Stop 312  
Covington, KY 41011

Attach Check or Money Order Here

Cat. No. 64728Z

Form **8718** (Rev. 11-2000)



## FORM 1023 APPLICATION

Form 1023 is the principle application for 501(c)(3). The same application is used for other designations. The difference is in how the Internal Revenue Service reviews the application. Remember, they want to see an organization with an educational, charitable or religious purpose.

The purpose of this section will not be to review each question. There are too many and most are self-explanatory. In our review of this application we will look at the sections and questions that are not as easy to interpret and try to clarify them.

### Part I – Identification of Application

- 1a. The name of the organization should be written exactly the same as it is on the Articles of Incorporation.
- 1b. It is a good idea to put someone's name here. This should be a person who has been involved in the preparation of the application. This will be the contact person for the IRS; the person who receives the official correspondence. In most cases, during the process of application review, the IRS agent will send a letter asking for clarification or supporting documents for the application. The person listed in 1b. should be someone who can answer an IRS agent's questions or find the information they are requesting. There is usually a deadline from the IRS for a response from the organization, so it is very important that the person listed here is intimately involved in the process.
3. This person may be the same person listed in 1b. If not, then the person listed should be someone who can answer questions about the application over the telephone. It is unlikely that the IRS will contact your organization by telephone for clarification on an aspect of your application. Usually they will send a letter to the person listed in 1b. requesting additional information.
4. This should be the same month reported in the application (SS4) for the Employer Identification Number.
5. This is the date reported on the Articles of Incorporation that you received from the Missouri

Secretary of State when you applied for not-for-profit status in Missouri.

6. This is only a concern for not-for-profits associated with hospitals, educational institutions, childcare organizations, and those organizations forming charitable risk pools. All other types of 501 (c)(3) applicants can skip this question.
8. Almost **all not-for-profits will need to file Form 990 federal tax returns with the IRS.** It is similar to filing a personal tax return except that the forms are simpler and not-for-profit organizations generally won't have to pay a tax. One of the main purposes of the Form 990 is to make it possible for the IRS to review the sources of income and expenses of the organization in order to see whether or not the not-for-profit organization still meets the criteria for a 501(c)(3).
9. When a not-for-profit has annual receipts of not more than \$5,000 in a year, they can often be considered tax-exempt without filing the forms to be formally recognized as a 501 (c)(3) by IRS and would not have had to file tax returns in the past even if they were several years old. Most of the time new organizations will apply for the 501 (c)(3) within 15 months of incorporation, so this question is only relevant for older organizations that have not filed for 501 (c)(3) and were still required to file a tax return
10. Almost all organizations using this handbook as a reference guide will want to select "a" to designate themselves a corporation. Although it is the same application for a Trust and/or Association, there are some questions that will need to be answered a little differently than they would for an application that wants to be a corporation.

**It is not normally advisable to file an application for a 501 (c)(3) unless there is a set of bylaws describing the organization and its functions.** This is particularly true if the organization will handle money. In the bylaws the organization can clearly describe how money will be managed on behalf of the corporation. Without bylaws it may be difficult to maintain the accountability necessary to manage the record keeping necessary for a 501 (c)(3).

Form **1023**  
(Rev. September 1998)  
Department of the Treasury  
Internal Revenue Service

**Application for Recognition of Exemption  
Under Section 501(c)(3) of the Internal Revenue Code**

OMB No. 1545-0056

**Note:** If exempt status is approved, this application will be open for public inspection.

Read the instructions for each Part carefully.

**A User Fee must be attached to this application.**

If the required information and appropriate documents are not submitted along with Form 8718 (with payment of the appropriate user fee), the application may be returned to you.

**Complete the Procedural Checklist on page 8 of the instructions.**

**Part I Identification of Applicant**

<b>1a</b> Full name of organization (as shown in organizing document)		<b>2</b> Employer identification number (EIN) (If none, see page 3 of the <b>Specific Instructions</b> .)
<b>1b</b> c/o Name (if applicable)		<b>3</b> Name and telephone number of person to be contacted if additional information is needed
<b>1c</b> Address (number and street)	Room/Suite	( )
<b>1d</b> City, town, or post office, state, and ZIP + 4. If you have a foreign address, see <b>Specific Instructions</b> for Part I, page 3.		<b>4</b> Month the annual accounting period ends
		<b>5</b> Date incorporated or formed
<b>1e</b> Web site address		<b>6</b> Check here if applying under section: a <input type="checkbox"/> 501(e) b <input type="checkbox"/> 501(f) c <input type="checkbox"/> 501(k) d <input type="checkbox"/> 501(n)
<b>7</b> Did the organization previously apply for recognition of exemption under this Code section or under any other section of the Code? . . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach an explanation.		
<b>8</b> Is the organization required to file Form 990 (or Form 990-EZ)? . . . . . <input type="checkbox"/> N/A <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach an explanation (see page 3 of the <b>Specific Instructions</b> ).		
<b>9</b> Has the organization filed Federal income tax returns or exempt organization information returns? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," state the form numbers, years filed, and Internal Revenue office where filed.		

**10** Check the box for the type of organization. ATTACH A CONFORMED COPY OF THE CORRESPONDING ORGANIZING DOCUMENTS TO THE APPLICATION BEFORE MAILING. (See **Specific Instructions** for Part I, Line 10, on page 3.) See also Pub. 557 for examples of organizational documents.)

- a ☐ Corporation—Attach a copy of the Articles of Incorporation (including amendments and restatements) showing approval by the appropriate state official; also include a copy of the bylaws.
- b ☐ Trust— Attach a copy of the Trust Indenture or Agreement, including all appropriate signatures and dates.
- c ☐ Association— Attach a copy of the Articles of Association, Constitution, or other creating document, with a declaration (see instructions) or other evidence the organization was formed by adoption of the document by more than one person; also include a copy of the bylaws.

If the organization is a corporation or an unincorporated association that has not yet adopted bylaws, check here ► ☐

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and that I have examined this application, including the accompanying schedules and attachments, and to the best of my knowledge it is true, correct, and complete.

**Please  
Sign  
Here** ►

(Signature)

(Type or print name and title or authority of signer)

(Date)

For Paperwork Reduction Act Notice, see page 7 of the instructions.

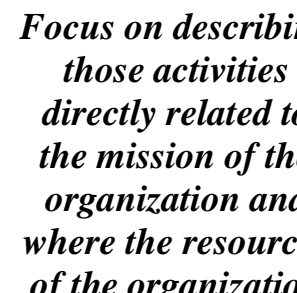
Cat. No. 17133K

## PART II -- ACTIVITIES AND OPERATIONAL INFORMATION

These three questions cause more problems for organizations than any others on this application. In fact, many groups never really get past this point. The important thing is to answer the questions to the best of your ability and to send the application to the IRS. It is not a contest, so you won't score points by providing lots of details regarding the activities of your organization. Keep in mind that if they want more information they will ask, and they will usually be specific about what they want. It is best to be brief and to the point.

Listing a fund raising activity in this part of the application does not obligate you to that activity. The goal in this section is to let the IRS know what your plans are. They are aware that things can change. However, it is important that an organization maintain good records of its fund-raising activities.

1. When answering this question focus on the activities that define the organization. For example, if a homeless shelter is applying for a 501 (c)(3), it is important that they detail the activities and services that they are providing the homeless. If the shelter also helped organize a neighborhood clean-up day once or twice but does not do it as a regular part of its mission, then it is not important to include. Focus on describing those activities directly related to the mission of the organization and where the resources of the organization are invested.
2. Don't be afraid to list funding sources that are tentative. If there is reason to believe that someone will contribute, then list them as a funder. Later in the application there will be questions related to whether or not your funding sources will come from public or private resources.
3. Many new organizations are confused by this question. Often, they do not have a formal fund-raising program. This question is asked because an organization needs to think about how it intends to garner its resources. **In order to maintain 501(c)(3) status an organization will need to be able to show how and where it received its funding.** So, if a group intends to write grant so it should state that and discuss how it intends to pursue grants. If there will be memberships, explain how membership drives will be organized. If there is going to be a letter-writing campaign, explain how that will be organized and submit a sample of the solicitation letter. Keep this as simple and direct as possible. It is important that your fund raising goals are clear. They want to be certain that your fund raising plans are in-line with the mission of the organization.



***Focus on describing those activities directly related to the mission of the organization and where the resources of the organization are invested.***

**Part II** Activities and Operational Information

- 1** Provide a detailed narrative description of all the activities of the organization—past, present, and planned. **Do not merely refer to or repeat the language in the organizational document.** List each activity separately in the order of importance based on the relative time and other resources devoted to the activity. Indicate the percentage of time for each activity. Each description should include, as a minimum, the following: **(a)** a detailed description of the activity including its purpose and how each activity furthers your exempt purpose; **(b)** when the activity was or will be initiated; and **(c)** where and by whom the activity will be conducted.

**SAMPLE DO NOT USE THIS FORM**

- 2** What are or will be the organization's sources of financial support? List in order of size.

- 3** Describe the organization's fundraising program, both actual and planned, and explain to what extent it has been put into effect. Include details of fundraising activities such as selective mailings, formation of fundraising committees, use of volunteers or professional fundraisers, etc. Attach representative copies of solicitations for financial support.

## PART II -- ACTIVITIES AND OPERATIONAL INFORMATION

4b. Most boards will not pay board members. **In fact, if an organization is paying its board members, it is unlikely it will be approved.** The organization can pay certain expenses but for most not-for-profits it is not a good idea to have a paid board. A not-for-profit can (and often does) have paid staff members. These staff people are generally answerable to the board of directors.

4c. Public officials can serve on not-for-profit boards. What the IRS wants to know is whether or not there is a position on the board of directors specifically for a public official. For example, a local housing corporation may have a person on the board who is also on the city council. The IRS wants to know if they are on the board as a representative of the city council or if they are someone who is a board member who happens to be a city council person. If they are representing another organization, you need to explain how that relationship works. Does the seat on the board go with the elected office? If so, how does that transition take place when a new person is elected to the city council? Sometimes a person will serve on a community board and get elected to a public office at a later date. It may not be necessary for that person to resign from the board (although it might be advisable for the organization not to be identified with any one political figure).

There are two principal concerns. One is that the organization is not considered a political organization. That is they are not in the business of supporting political candidates or causes. The other is to make sure that the organization is not simply an arm of the government. So, if there is someone serving on the board of directors as a representative of the government, it is important to explain why it is necessary to have this representative on the board.

4d. This question refers specifically to foundations making application for a 501(c)(3). Unless the organization is applying for 501(c)(3) status as a foundation, mark, "no." It is not recommended that an organization that wants to be organized as a foundation complete this application without legal assistance even though the application is the same. The way the application is evaluated is different and the financial components in section four become more complicated. **Professional assistance is strongly encouraged for gaining exempt status for a foundation.**

5. Sometimes a new organization is created by an older organization for a very narrow purpose but it is still

part of that other organization. For instance, a housing organization may host a house tour event. Over time that event becomes large and may require a separate budget, fund-raising strategy and staffing. The housing corporation may decide to create another organization just for the tour but may still want to control the staff and the budget. If something like this is the case, then answer "yes." If the board will be independent of another organization (even if it was started by another organization), answer "no."

If the organization is a chapter of a larger organization, was started by another organization, or maintains some affiliation with another organization, then answer this part "yes" and explain what the connection is to that other organization. The IRS wants to know who is making the decisions (particularly financial decisions) for the organization.

6. If another organization (other than another 501(c)(3) organization such as a government agency or a business) is providing any assistance, such as a telephone, office, funding, etc., mark this one "yes." It is important that all relationships with other organizations involving the sharing of resources are explained.

7. If another organization provided resources to help this new organization get started, note this fact. This is particularly important if the assistance was in the form of a loan. In addition, sometimes a new group is started to support the efforts of another organization. If there are formal links to another organization, it may be a good idea to see if there are any expectations from the new organization.

**Part II** Activities and Operational Information (Continued)**4** Give the following information about the organization's governing body:**a** Names, addresses, and titles of officers, directors, trustees, etc.**b** Annual compensation

**c** Do any of the above persons serve as members of the governing body by reason of being public officials or being appointed by public officials? ☐ Yes ☐ No  
If "Yes," name those persons and explain the basis of their selection or appointment.

**d** Are any members of the organization's governing body "disqualified persons" with respect to the organization (other than by reason of being a member of the governing body) or do any of the members have either a business or family relationship with "disqualified persons"? (See **Specific Instructions** for Part II, Line 4d, on page 3.) ☐ Yes ☐ No  
If "Yes," explain.

**5** Does the organization control or is it controlled by any other organization? ☐ Yes ☐ No  
Is the organization the outgrowth of (or successor to) another organization, or does it have a special relationship with another organization by reason of interlocking directorates or other factors? ☐ Yes ☐ No  
If either of these questions is answered "Yes," explain.

**6** Does or will the organization directly or indirectly engage in any of the following transactions with any political organization or other exempt organization (other than a 501(c)(3) organization): **(a)** grants; **(b)** purchases or sales of assets; **(c)** rental of facilities or equipment; **(d)** loans or loan guarantees; **(e)** reimbursement arrangements; **(f)** performance of services, membership, or fundraising solicitations; or **(g)** sharing of facilities, equipment, mailing lists or other assets, or paid employees? ☐ Yes ☐ No  
If "Yes," explain fully and identify the other organizations involved.

**7** Is the organization financially accountable to any other organization? ☐ Yes ☐ No  
If "Yes," explain and identify the other organization. Include details concerning accountability or attach copies of reports if any have been submitted.



## PART II -- ACTIVITIES AND OPERATIONAL INFORMATION

8. New organizations may not have many resources. However, if a building (or office space), computer, office supplies, telephone or anything else was donated to the organization and it is being used by the organization to conduct its business, it needs to be listed in this space.
9. This may be tough to judge for a new organization. If there is no plan at the time of the application to have a tax-exempt bond issue, mark this "no." If the organization is planning to work with local government on certain development projects, it is a good idea to visit with the government officials to see if a bond may be a possibility in the near future as a funding source for a project.
- 10a. Answer "yes" if you believe you will have someone else manage your facilities. If you don't have any facilities or if you will manage them yourselves answer "no"
- 10b. Answer "yes" if you rent space for your organization or have a long term lease on a facility. Answer "no" if you don't have any leases or contracts. Answering "no" to this question does not mean that your organization can't enter into contracts or leases at a later time. They are interested in what kind of obligations you have at the time of your application.
11. If the organization is a membership organization, answer these questions as completely as possible. **Parts "a" and "c" should be part of the bylaws. If the organization has not thought through some of these issues, it is advisable to hold off on making the 501(c)(3) application until they have been answered for the organization.** Sometimes an organization is not sure whether it is a member organization or not. Some community groups and others are open to people in the community but there are no requirements for belonging to the organization. A group may be a membership organization even if there are no dues. If the membership plays any role in decision-making (even if it is simply to elect a decision-making board), then it is a membership organization. The IRS wants to make sure that if you are a membership organization that you are not establishing membership criteria that discriminate based on race, religion, ethnic origin or other protected classes. In addition, they want to be certain that the services of the organization are not provided solely to the members.
12. If the organization is going to be providing services to specific groups of people, it needs to be sure that the policies for selecting who will receive services is fair to everyone who would be eligible for those services. If there are going to be specific criteria for participating in a program, those criteria must not put anyone at a disadvantage based on their race, religion, ethnic origin or other protected classes.
13. **Politics and the role of a 501(c)(3) are watched very closely. A 501(c)(3) should not support individual candidates.** They are permitted to provide education on a subject that may be included in a ballot initiative provided it is related to the purpose of the organization and it does not spend a large percent of its time and resources on this endeavor.
14. **Endorsing a campaign, promoting or opposing a candidate, or promoting or opposing a ballot initiative is intervening in a political campaign. A 501(c)(3) will need to be very careful about getting involved in politics.** A 501 (c)(3) cannot commit a substantial portion of its resources to political campaigns or causes. It is also important to note that if a member of the organization decides to get involved in a political campaign, they must not do so on behalf of the organization. They can do it in another capacity but not on behalf of the 501(c)(3) corporation.

Members of the organization will need to be sure to keep their political activities separate from their charitable activities.

**Part II** **Activities and Operational Information** *(Continued)*

- 8** What assets does the organization have that are used in the performance of its exempt function? (Do not include property producing investment income.) If any assets are not fully operational, explain their status, what additional steps remain to be completed, and when such final steps will be taken. If none, indicate "N/A."
- 
- 9** Will the organization be the beneficiary of tax-exempt bond financing within the next 2 years? . . . ☐ **Yes** ☐ **No**
- 
- 10a** Will any of the organization's facilities or operations be managed by another organization or individual under a contractual agreement? . . . ☐ **Yes** ☐ **No**
- b** Is the organization a party to any leases? . . . ☐ **Yes** ☐ **No**
- If either of these questions is answered "Yes," attach a copy of the contracts and explain the relationship between the applicant and the other parties.
- 
- 11** Is the organization a membership organization? . . . ☐ **Yes** ☐ **No**
- If "Yes," complete the following:
- a** Describe the organization's membership requirements and attach a schedule of membership fees and dues.
- b** Describe the organization's present and proposed efforts to attract members and attach a copy of any descriptive literature or promotional material used for this purpose.
- c** What benefits do (or will) the members receive in exchange for their payment of dues?
- 
- 12a** If the organization provides benefits, services, or products, are the recipients required, or will they be required, to pay for them? . . . ☐ **N/A** ☐ **Yes** ☐ **No**
- If "Yes," explain how the charges are determined and attach a copy of the current fee schedule.
- b** Does or will the organization limit its benefits, services, or products to specific individuals or classes of individuals? . . . ☐ **N/A** ☐ **Yes** ☐ **No**
- If "Yes," explain how the recipients or beneficiaries are or will be selected.
- 
- 13** Does or will the organization attempt to influence legislation? . . . ☐ **Yes** ☐ **No**
- If "Yes," explain. Also, give an estimate of the percentage of the organization's time and funds that it devotes or plans to devote to this activity.
- 
- 14** Does or will the organization intervene in any way in political campaigns, including the publication or distribution of statements? . . . ☐ **Yes** ☐ **No**
- If "Yes," explain fully.
- 

SAMPLE DO NOT USE THIS FORM

## PART III -- TECHNICAL REQUIREMENTS

The IRS expects that most not-for-profit corporations will apply for 501(c)(3) status at some point in their organization's history, particularly if the organization plans to handle financial resources. Questions one through seven are an attempt to find out why a group has not filed and whether or not it is still eligible to file. If your group is older and has not filed for a 501(c)(3), don't get too worried. Most not-for-profit organizations are still eligible.

1. Most groups will be new enough to answer this question "yes." If not, then answer question 2.
2. If you don't meet the criteria of a, b, or c; don't get too worried yet. Go to question 3.
3. If the organization is less than 27 months old, check "yes" to this question. Keep in mind that the age of the organization refers to its time as a formal corporation. There are many groups that are older but did not formally incorporate until they decided to file for a 501(c)(3).
4. This will generally cover most organizations that are older than 27 months. "Reasonable action and good faith" generally means that if the IRS has not contacted the organization about filing for a 501C3 then the organization can be automatically exempt from the time requirements for filing the application. This will cover just about everyone. However, an organization older than 27 months that has not filed and has been contacted by the IRS for not filing can still be eligible if they didn't file the application because of intervening events beyond their control; they acted in good faith but were not aware of the filing requirements; did not file because they were advised by the IRS not to file; or, they did not file because a qualified tax professional failed to file the forms or failed to see to it that the organization filed the forms.
5. If for some reason an organization cannot be covered by the "reasonable and good faith" section then it can still qualify if the organization is willing to start over as a new organization beginning from the time the application is filed as long as the organization would not be liable for taxes to the Internal Revenue Service. Please keep in mind that if you decide to do this that it will impact how you answer a later question (Part III, question 10.) It may be a good idea to refer to question 10 in Part III, before deciding whether or not to answer "yes" to question 5 and completing question 6. If the organization would like

a definitive ruling (see question 10), it is a good idea to see if you can answer 4 "yes" and skip questions 5 and 6. If an organization is comfortable with an advance ruling, it is fine to answer "no" to question 4, and "yes" to question 5, and answer question 6. (See page 48 for discussion on advance and definitive rulings.)

6. This is kind of an odd question to figure out. What they want you to do is if you answer question 5; "yes" then the IRS wants you to file the paperwork for a not-for-profit corporation that would cover the tax liabilities of the organization's history. What this means is that from the time you file the 1023 application you are acting like a brand new organization beginning the date the IRS receives your application. However, since you have been operating as a not-for-profit corporation but never filed for a 501(c)(3) in order to be a not-for-profit that was tax exempt you have to have on file something that covers your tax liability prior to filing for the 501 (c)(3). So, they want you to send in the first page of the 1024 form, which is the form the other not-for-profit corporations who don't intend to be 501 (c)(3) corporations have to file with their applications. These are organizations like Labor Unions and Business Associations that are not-for-profits but aren't eligible to give donors tax deductions for their contributions. If an organization decided to go this route, they must remember that contributions they received up to the time the application for the 501(c)(3) was filed were not tax deductible.

**Part III**    **Technical Requirements**

- 1** Are you filing Form 1023 within 15 months from the end of the month in which your organization was created or formed? . . . . . ☐ **Yes** ☐ **No**  
If you answer "Yes," do not answer questions on lines 2 through 6 below.

- 2** If one of the exceptions to the 15-month filing requirement shown below applies, check the appropriate box and proceed to question 7.

**Exceptions**—You are not required to file an exemption application within 15 months if the organization:

- ☐ **a** Is a church, interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church. See **Specific Instructions**, Line 2a, on page 4;
- ☐ **b** Is not a private foundation and normally has gross receipts of not more than \$5,000 in each tax year; or
- ☐ **c** Is a subordinate organization covered by a group exemption letter, but only if the parent or supervisory organization timely submitted a notice covering the subordinate.

- 3** If the organization does not meet any of the exceptions on line 2 above, are you filing Form 1023 within 27 months from the end of the month in which the organization was created or formed? . . . . . ☐ **Yes** ☐ **No**

If "Yes," your organization qualifies under Regulation section 301.9100-2, for an automatic 12-month extension of the 15-month filing requirement. Do not answer questions 4 through 6.

If "No," answer question 4.

- 4** If you answer "No" to question 3, does the organization wish to request an extension of time to apply under the "reasonable action and good faith" and the "no prejudice to the interest of the government" requirements of Regulations section 301.9100-3? . . . . . ☐ **Yes** ☐ **No**

If "Yes," give the reasons for not filing this application within the 27-month period described in question 3. See **Specific Instructions**, Part III, Line 4, before completing this item. Do not answer questions 5 and 6.

If "No," answer questions 5 and 6.

- 5** If you answer "No" to question 4, your organization's qualification as a section 501(c)(3) organization can be recognized only from the date this application is filed. Therefore, do you want us to consider the application as a request for recognition of exemption as a section 501(c)(3) organization from the date the application is received and not retroactively to the date the organization was created or formed? . . . ☐ **Yes** ☐ **No**

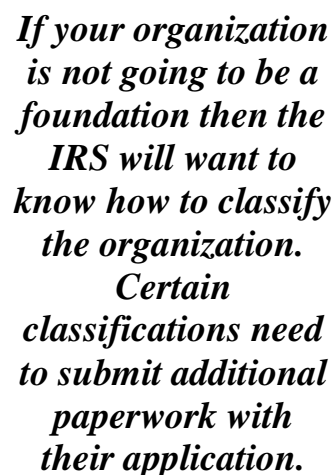
- 6** If you answer "Yes" to question 5 above and wish to request recognition of section 501(c)(4) status for the period beginning with the date the organization was formed and ending with the date the Form 1023 application was received (the effective date of the organization's section 501(c)(3) status), check here ► ☐ and attach a completed page 1 of Form 1024 to this application.

## PART III -- TECHNICAL REQUIREMENTS

7. It is important to note that if the organization will be operating as a foundation, it should get some legal advice regarding the filing of the application. Since the financial management requirements may be significantly more rigorous for a foundation, it is an excellent idea to have an attorney or accountant at least review the application. Your answers to questions 7 and 8 will help the IRS determine how to review your application. If you do not want your application reviewed as a foundation, mark "no" for both questions 7 and 8.
8. Schedule E is included in the 1023 application if your organization wants to be a private operating foundation. Again the process of applying to be a 501 (c)(3) foundation is beyond the scope of this workbook. It is essential that groups intending to do so get legal and financial assistance.

If your organization is not going to be a foundation, the IRS will want to know how to classify the organization. Certain classifications need to submit additional paperwork with their application. If your organization is in a classification that needs a supplemental schedule such as a health care or religious organization, it will say so next to the classification. If there is no schedule listed next to the classification that best describes your organization, you will not need to complete a schedule. All the schedules are included in the 1023 application.

9. Most community organizations that are not foundations will answer this question with "h", "i", or "j". If most of the organization's resources come from publicly supported organizations or government, select "h". If less than one-third of the organization's resources come from publicly supported organizations or government, select "i". If you aren't sure yet what the breakdown will be, select "j."



***If your organization is not going to be a foundation then the IRS will want to know how to classify the organization. Certain classifications need to submit additional paperwork with their application.***

**Part III** Technical Requirements *(Continued)*

**7** Is the organization a private foundation?

- ☐ **Yes** (Answer question 8.)  
☐ **No** (Answer question 9 and proceed as instructed.)

**8** If you answer "Yes" to question 7, does the organization claim to be a private operating foundation?

- ☐ **Yes** (Complete Schedule E.)  
☐ **No**

After answering question 8 on this line, go to line 14 on page 7.

**9** If you answer "No" to question 7, indicate the public charity classification the organization is requesting by checking the box below that most appropriately applies:

**THE ORGANIZATION IS NOT A PRIVATE FOUNDATION BECAUSE IT QUALIFIES:**

- |                                   |   |  |
|-----------------------------------|---|--|
| <b>a</b> <input type="checkbox"/> | As a church or a convention or association of churches<br>(CHURCHES MUST COMPLETE SCHEDULE A.)  | Sections 509(a)(1)<br>and 170(b)(1)(A)(i)                          |
| <b>b</b> <input type="checkbox"/> | As a school (MUST COMPLETE SCHEDULE B.)   | Sections 509(a)(1)<br>and 170(b)(1)(A)(ii)                         |
| <b>c</b> <input type="checkbox"/> | As a hospital or a cooperative hospital service organization, medical research organization operated in conjunction with a hospital (These organizations, except for hospital service organizations, MUST COMPLETE SCHEDULE C.)   | Sections 509(a)(1)<br>and 170(b)(1)(A)(iii)                        |
| <b>d</b> <input type="checkbox"/> | As a governmental unit described in section 501(c)(1).  | Sections 509(a)(1)<br>and 170(b)(1)(A)(v)                          |
| <b>e</b> <input type="checkbox"/> | As being operated solely for the benefit of, or in connection with, one or more of the organizations described in <b>a</b> through <b>d</b> , <b>g</b> , <b>h</b> , or <b>i</b> (MUST COMPLETE SCHEDULE D.)   | Section 509(a)(3)  |
| <b>f</b> <input type="checkbox"/> | As being organized and operated exclusively for testing for public safety.  | Section 509(a)(4)  |
| <b>g</b> <input type="checkbox"/> | As being operated for the benefit of a college or university that is owned or operated by a governmental unit.  | Sections 509(a)(1)<br>and 170(b)(1)(A)(iv)                         |
| <b>h</b> <input type="checkbox"/> | As receiving a substantial part of its support in the form of contributions from publicly supported organizations, from a governmental unit, or from the general public.  | Sections 509(a)(1)<br>and 170(b)(1)(A)(vi)                         |
| <b>i</b> <input type="checkbox"/> | As normally receiving not more than one-third of its support from gross investment income and more than one-third of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions (subject to certain exceptions). | Section 509(a)(2)  |
| <b>j</b> <input type="checkbox"/> | The organization is a publicly supported organization but is not sure whether it meets the public support test of <b>h</b> or <b>i</b> . The organization would like the IRS to decide the proper classification.   | Sections 509(a)(1)<br>and 170(b)(1)(A)(vi)<br>or Section 509(a)(2) |

**If you checked one of the boxes a through f in question 9, go to question**

**14. If you checked box g in question 9, go to questions 11 and 12.**

**If you checked box h, i, or j, in question 9, go to question 10.**

## PART III -- TECHNICAL REQUIREMENTS

This is one of the most important parts of the application. How the IRS reviews your application is heavily influenced by your answers to questions 10 – 14. Please pay close attention to the questions and think very carefully about how you want to answer them for your organization. Read through all the questions on this page before you begin to answer any of them. You may change your mind about how to answer question 10 after you read through the other questions.

10. A definitive ruling means that you want the IRS to review the application and based on the materials submitted with the application to decide whether or not the application should be accepted. An advance ruling differs in that the IRS will review your application and if they think that the organization meets the requirements of a 501(c)(3) they will issue a determination letter that says “yes, we believe this organization meets the basic requirements of a 501(c)(3) but we want to watch it for a couple of years to determine whether or not they should be granted the status permanently. At the end of the time period prescribed in the letter, if the IRS does not see anything unusual, the organization automatically is granted the 501(c)(3) status permanently. In the case of an advance ruling the organization has all the rights and responsibilities of a 501(c)(3) during the review period. In fact, a not-for-profit may be able to act as a 501(c)(3) beginning at the time the application is submitted. If a funder needs a tax number, you can give them the employer identification number that the organization was assigned after filing the SS 4 form. In fact, this is the number that needs to be provided all funders who would like to receive the tax benefits for contributing to a charitable organization.

It is generally advisable for organizations to go with an advance ruling. It is possible that the review agent will more closely scrutinize the application for a definitive ruling. In addition, it is a good idea for a newer organization to allow for that additional scrutiny as a check on the financial record keeping of the organization. Some people who have worked around not-for-profits for a long time believe that it is rare for the IRS to follow-up with an organization once it has granted an advance ruling. For a new organization this is really the only way to go. It will make the process of being granted 501(c)(3) status much simpler and maybe even faster.

11. Unusual grants are contributions or grants to the organization that don't occur regularly. They are normally funds that an organization will only receive

one time such as a bequest or for a short-time, such as a 2 year grant for a specific project.

12. This can be a test of an organization's record keeping system. The IRS wants fairly detailed information about the sources of your organization's funding. If someone is contributing an amount larger than 2% of the budget, they want a list of those contributors. If your organization has not been collecting this type of information and are interested in a definitive ruling, you may need to reconsider at this point. It would also be a good idea to revamp your record keeping to note donors, dates that donations were made and the amounts.
13. This is another test of the record keeping of an organization. If you have a small organization with good record keeping and fairly small contribution amounts, applying for a definitive ruling by selecting either question 12 or 13 may make sense for your organization. However, for most groups an advance ruling makes the most sense.
14. Go through the list and select any of the items that might apply to the organization. In the case of a community organization it is likely that the answer will be "no" for each item. If one or more of the items in this question are answered "yes," complete the corresponding schedule (an additional one-page form) in the back of the instruction booklet.

**Part III** Technical Requirements (Continued)

- 10** If you checked box **h**, **i**, or **j** in question 9, has the organization completed a tax year of at least 8 months?
- ☐ **Yes**—Indicate whether you are requesting:
- ☐ A definitive ruling. (Answer questions 11 through 14.)
- ☐ An advance ruling. (Answer questions 11 and 14 and attach two Forms 872-C completed and signed.)
- ☐ **No**—You must request an advance ruling by completing and signing two Forms 872-C and attaching them to the Form 1023.
- 11** If the organization received any unusual grants during any of the tax years shown in Part IV-A, **Statement of Revenue and Expenses**, attach a list for each year showing the name of the contributor; the date and the amount of the grant; and a brief description of the nature of the grant.

- 12** If you are requesting a definitive ruling under section 170(b)(1)(A)(iv) or (vi), check here ☐ and:

- a** Enter 2% of line 8, column (e), Total, of Part IV-A . . . . .
- b** Attach a list showing the name and amount contributed by each person (other than a governmental unit or "publicly supported" organization) whose total gifts, grants, contributions, etc., were more than the amount entered on line **12a** above.

- 13** If you are requesting a definitive ruling under section 509(a)(2), check here ☐ and:

- a** For each of the years included on lines 1, 2, and 9 of Part IV-A, attach a list showing the name of and amount received from each "disqualified person." (For a definition of "disqualified person," see **Specific Instructions**, Part II, Line 4d, on page 3.)
- b** For each of the years included on line 9 of Part IV-A, attach a list showing the name of and amount received from each payer (other than a "disqualified person") whose payments to the organization were more than \$5,000. For this purpose, "payer" includes, but is not limited to, any organization described in sections 170(b)(1)(A)(i) through (vi) and any governmental agency or bureau.

<b>14</b> Indicate if your organization is one of the following. If so, complete the required schedule. (Submit only those schedules that apply to your organization. <b>Do not submit blank schedules.</b> )	<b>Yes</b>	<b>No</b>	<b>If "Yes," complete Schedule:</b>
Is the organization a church? . . . . .			<b>A</b>
Is the organization, or any part of it, a school? . . . . .			<b>B</b>
Is the organization, or any part of it, a hospital or medical research organization? . . . . .			<b>C</b>
Is the organization a section 509(a)(3) supporting organization? . . . . .			<b>D</b>
Is the organization a private operating foundation? . . . . .			<b>E</b>
Is the organization, or any part of it, a home for the aged or handicapped? . . . . .			<b>F</b>
Is the organization, or any part of it, a child care organization? . . . . .			<b>G</b>
Does the organization provide or administer any scholarship benefits, student aid, etc.? . . . .			<b>H</b>
Has the organization taken over, or will it take over, the facilities of a "for profit" institution? . . .			<b>I</b>



## PART IV -- FINANCIAL DATA

The financial section tends to be another section that generates lots of fear. In this application there are two financial reports required. One is a budget worksheet and the other is a balance sheet. The first is the budget

### *Statement of Revenue and Expenses*

If a group is new, it is much simpler to complete the budget sheet because the group needs only to complete the current year and propose a budget for the next two years. If the group is older, it requires the current year and previous years, going back three years. This can be a test for many not-for-profits that have not maintained accurate record-keeping systems. As a word of advice, complete the form as best you can and make sure the record keeping improves.

### *Questions 1 through 13 refer to income for the organization*

Most of these are self-explanatory. The following are some notes regarding those points that most often give people problems with this section.

1. These are funds received from grants and contributions that are not unusual. They could be funds received from a government agency (unless the funds are being provided to the organization in order for the organization to provide a specific public purpose), grants from another organization or a foundation. The tricky part for grants is whether they should be included here or in number 12 under unusual grants. The rule of thumb is that if the money is something that comes in fairly reliably from a funder and is not a one-shot deal or part of a temporary (even multi-year) program then it should be listed here.
4. Income from an organization's unrelated exempt activity is funds that are earned but not because of a service provided related to the organization's purpose. For instance, an organization may have a large meeting room that it will rent for events. The money earned on the room rental should be listed here.
9. This may include income from services provided and monies earned from fund-raising that have not yet been reported (except for unusual grants). Services may include charges assessed for participating in a program. Make sure to include an estimate of in-kind assessments. For instance, a shelter may require that program participants contribute a portion of their

food stamps. A dollar value should be estimated for these contributions.

12. Unusual grants are those funds that are unusual for the organization. If a contribution is a one-time deal (such as a bequest), or is temporary (like a three-year grant from a foundation for a specific project), or significantly changes the annual income for one year (such as sponsors for a one-time event) then list them here. These are contributions not normally considered part of the regular budget

### *Questions 14 through 23 relate to expenses.*

This can be tricky if the records aren't the best. If the records are not good and receipts are not available, estimate these expenses as best you can. However, **from now on the records must be accurately kept and archived.**

15. They want you to list grants and contributions you made to other organizations.
16. Compensation of officers is closely scrutinized. Please give them complete information, keeping in mind that board members and officers are supposed to be donating their talents. Expenses can be reimbursed but must be carefully documented.
18. List the salaries and wages for all staff. If you are projecting, anticipate what you will spend on salaries. Remember that benefits also count as salary.
21. If the organization has a resource that can be depreciated such as a building, that depreciation should be listed here.
22. List all other expenses that the organization currently has commitments to pay as well as those they can anticipate.

**Part IV Financial Data**

Complete the financial statements for the current year and for each of the 3 years immediately before it. If in existence less than 4 years, complete the statements for each year in existence. If in existence less than 1 year, also provide proposed budgets for the 2 years following the current year.

**A. Statement of Revenue and Expenses**

		Current tax year	3 prior tax years or proposed budget for 2 years			(e) TOTAL
		(a) From..... to	(b) .....	(c) .....	(d) .....	
Revenue	1 Gifts, grants, and contributions received (not including unusual grants—see page 6 of the instructions). . . . .					
	2 Membership fees received . .					
	3 Gross investment income (see instructions for definition) . .					
	4 Net income from organization's unrelated business activities not included on line 3. . . . .					
	5 Tax revenues levied for and either paid to or spent on behalf of the organization . . . . .					
	6 Value of services or facilities furnished by a governmental unit to the organization without charge (not including the value of services or facilities generally furnished the public without charge). . . . .					
	7 Other income (not including gain or loss from sale of capital assets) (attach schedule) . .					
	8 Total (add lines 1 through 7)					
	9 Gross receipts from admissions, sales of merchandise or services, or furnishing of facilities in any activity that is not an unrelated business within the meaning of section 513. Include related cost of sales on line 22 . . . . .					
	10 Total (add lines 8 and 9) . .					
	11 Gain or loss from sale of capital assets (attach schedule). . .					
	12 Unusual grants. . . . .					
	13 Total revenue (add lines 10 through 12). . . . .					
Expenses	14 Fundraising expenses . . . .					
	15 Contributions, gifts, grants, and similar amounts paid (attach schedule) . . . . .					
	16 Disbursements to or for benefit of members (attach schedule) .					
	17 Compensation of officers, directors, and trustees (attach schedule) . . . . .					
	18 Other salaries and wages . .					
	19 Interest . . . . .					
	20 Occupancy (rent, utilities, etc.) .					
	21 Depreciation and depletion . .					
	22 Other (attach schedule) . . .					
	23 Total expenses (add lines 14 through 22). . . . .					
	24 Excess of revenue over expenses (line 13 minus line 23)					

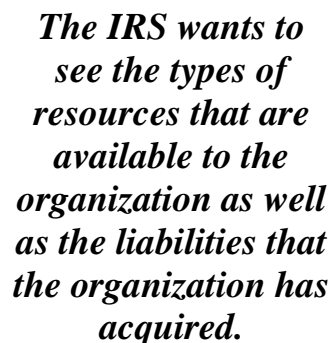
## PART IV -- FINANCIAL DATA

In this section the IRS wants to get a sense of what the organization is worth at the time of the application. The IRS wants to see the types of resources that are available to the organization as well as the liabilities that the organization has acquired.

### *Balance Sheet*

Many of the items listed here are self explanatory. Many newer organizations are not likely to have much money or many liabilities. They have not had time to acquire either assets or liabilities. For these groups this should be fairly straight forward and simple.

1. The IRS wants to know how much money is available to the organization in cash, checking and savings accounts.
2. If a potential donor has pledged money but has not yet given it to the organization, include it in line two "accounts receivable."
3. If your organization owns anything of value that it intends to sell, include the value of these items.
4. This is where the organization should list the value of stocks or bonds that someone has pledged to your organization. These would be stocks pledged but not yet received. Sometimes stocks are left to organizations from an estate or trust that may take time to transfer to the organization. In this case the organization knows it will receive the resources, but the transfer has not been completed at the time this application is filed.
5. If the organization owns stocks, they need to be listed. Include the number of shares and their value at the time this application is submitted.
6. This might be an issue for an organization involved in housing. If the organization holds a mortgage on a property, they should include the value of that mortgage(s) here.
10. List all assets that you own that may have value.
12. List the bills (such as rents and utilities) that may not have been paid yet at the time the balance sheet was completed.
13. This includes contributions that have been pledged or committed at the time of the application but have not been paid.
14. If you own a property or vehicle that you are making payments on, please list the amounts of the payments and list the schedule. They want to get a sense of your debt load.
15. List all your other debts or liabilities.



*The IRS wants to see the types of resources that are available to the organization as well as the liabilities that the organization has acquired.*

**Part IV** Financial Data (Continued)

<b>B. Balance Sheet (at the end of the period shown)</b>		Current tax year Date .....
<b>Assets</b>		
<b>1</b> Cash . . . . .	<b>1</b>	
<b>2</b> Accounts receivable, net . . . . .	<b>2</b>	
<b>3</b> Inventories . . . . .	<b>3</b>	
<b>4</b> Bonds and notes receivable (attach schedule) . . . . .	<b>4</b>	
<b>5</b> Corporate stocks (attach schedule) . . . . .	<b>5</b>	
<b>6</b> Mortgage loans (attach schedule) . . . . .	<b>6</b>	
<b>7</b> Other investments (attach schedule) . . . . .	<b>7</b>	
<b>8</b> Depreciable and depletable assets (attach schedule) . . . . .	<b>8</b>	
<b>9</b> Land . . . . .	<b>9</b>	
<b>10</b> Other assets (attach schedule) . . . . .	<b>10</b>	
<b>11</b> <b>Total assets</b> (add lines 1 through 10) . . . . .	<b>11</b>	
<b>Liabilities</b>		
<b>12</b> Accounts payable . . . . .	<b>12</b>	
<b>13</b> Contributions, gifts, grants, etc., payable . . . . .	<b>13</b>	
<b>14</b> Mortgages and notes payable (attach schedule) . . . . .	<b>14</b>	
<b>15</b> Other liabilities (attach schedule) . . . . .	<b>15</b>	
<b>16</b> <b>Total liabilities</b> (add lines 12 through 15) . . . . .	<b>16</b>	
<b>Fund Balances or Net Assets</b>		
<b>17</b> Total fund balances or net assets . . . . .	<b>17</b>	
<b>18</b> <b>Total liabilities and fund balances or net assets</b> (add line 16 and line 17) . . . . .	<b>18</b>	
If there has been any substantial change in any aspect of the organization's financial activities since the end of the period shown above, check the box and attach a detailed explanation . . . . . <input type="checkbox"/>		

## FORM 872 - C

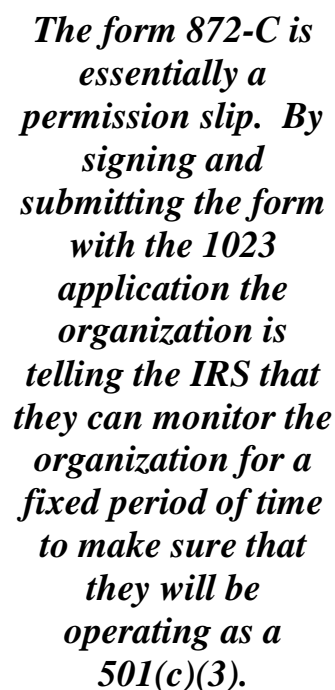
This form needs to be completed by organizations that decided that they want the IRS to give them an advance ruling (please see page 48, question 10 regarding advance rulings and definitive rulings). Organizations that will be filing for an advance ruling will need to prepare two original, signed copies of this form.

Completing the form is a fairly simple process. The ending date of the first tax year would be the year ending the first time that a form 990 (the annual tax return for a not-for-profit organization) was filed. If the organization has never filed a 990 form, the ending date of the first year is the end of the current fiscal year (whenever that is for the organization). For most organizations the fiscal year is likely to be the end of the current calendar year unless the bylaws specify a different fiscal year.

The form 872-C is essentially a permission slip. By signing and submitting the form with the 1023 application the organization is telling the IRS that they can monitor the organization for a fixed period of time to make sure that they will be operating as a 501(c)(3). In return the IRS will grant the organization all the rights and privileges of a 501(c)(3).

From a practical standpoint this changes very little for the organization applying for 501(c)(3). They will still review the application and make a determination. The difference is that instead of receiving a letter that says that the organization is a 501(c)(3) they will receive a letter that states they are provisionally granted 501(c)(3) status for the following time period.

At the end of the time period, unless the IRS contacts the organization with questions about the operation of the organization, the organization will receive a letter from the IRS that changes the organization from provisional to full 501(c)(3) status. There are no differences in rights or responsibilities except that the IRS will need to go through more formal procedures should they want information from your organization outside the annual filing submitted on the 990 form.



***The form 872-C is essentially a permission slip. By signing and submitting the form with the 1023 application the organization is telling the IRS that they can monitor the organization for a fixed period of time to make sure that they will be operating as a 501(c)(3).***

Form **872-C**

(Rev. September 1998)

Department of the Treasury  
Internal Revenue Service**Consent Fixing Period of Limitation Upon  
Assessment of Tax Under Section 4940 of the  
Internal Revenue Code**

(See instructions on reverse side.)

OMB No. 1545-0056

**To be used with  
Form 1023. Submit  
in duplicate.**

Under section 6501(c)(4) of the Internal Revenue Code, and as part of a request filed with Form 1023 that the organization named below be treated as a publicly supported organization under section 170(b)(1)(A)(vi) or section 509(a)(2) during an advance ruling period,

.....  
(Exact legal name of organization as shown in organizing document)

.....  
(Number, street, city or town, state, and ZIP code)

} and the District Director of Internal Revenue, or Assistant Commissioner (Employee Plans and Exempt Organizations)

consent and agree that the period for assessing tax (imposed under section 4940 of the Code) for any of the 5 tax years in the advance ruling period will extend 8 years, 4 months, and 15 days beyond the end of the first tax year.

However, if a notice of deficiency in tax for any of these years is sent to the organization before the period expires, the time for making an assessment will be further extended by the number of days the assessment is prohibited, plus 60 days.

Ending date of first tax year .....  
(Month, day, and year)

**SAMPLE DO NOT USE THIS FORM**

Name of organization (as shown in organizing document)	Date
Officer or trustee having authority to sign	Type or print name and title
Signature ►	
<b>For IRS use only</b>	
District Director or Assistant Commissioner (Employee Plans and Exempt Organizations)	Date

By ►

For Paperwork Reduction Act Notice, see page 7 of the Form 1023 Instructions.

Cat. No. 16905Q

## PROCEDURAL CHECKLIST

The procedural checklist is to help make sure that everything for the application is included. It will speed up the review process if the IRS receives everything it needs the first time.

It is important to carefully read through the checklist and make sure that you have all the materials. If something is missing it can delay your entire review process by weeks—sometimes months.

In addition to what is listed in the procedural checklist also make sure that you have:

◆ Articles of Incorporation from the state of Missouri

These articles should have two pages. The first will be the actual articles with the Secretary of State's seal stamped on it. The second page needs to include the purpose and dissolution clauses discussed on page 27. **Not including these two clauses with the Articles of Incorporation is one of the most common reasons an application is delayed.**

◆ The most current (adopted, signed, and dated) bylaws of the organization

Be certain that the page of your bylaws with the dates and signatures is included in the copy of the bylaws that you send. If they are not included the review process will be delayed.

◆ Supporting materials as requested in the 1023 application such as advertisements and brochures that the organization has used in its course of business

There are several sections in the application where it might be necessary to provide additional information. Go through each part of the application and make sure you are including all the information the IRS is asking for.

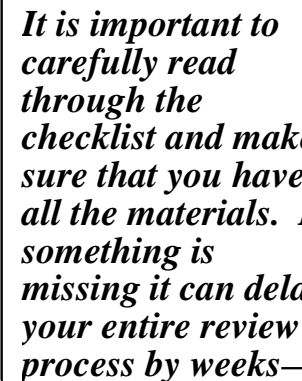
◆ Schedules (if your organization needs to file a schedule)

◆ Forms 1023, 872-C, 8718

These are the actual applications. The 1023 is the 501(c)(3) application, the 872-C is the permission form for the advanced ruling, and the 8718 is the bill.

**Don't forget to include your check.**

◆ Make sure the Employee ID Number is on the front of the 1023 application



***It is important to carefully read through the checklist and make sure that you have all the materials. If something is missing it can delay your entire review process by weeks—sometimes months.***

# Procedural Checklist

## Make sure the application is complete.

If you do not complete all applicable parts or do not provide all required attachments, we may return the incomplete application to your organization for resubmission with the missing information or attachments. This will delay the processing of the application and may delay the effective date of your organization's exempt status. The organization may also incur additional user fees.

### Have you . . .

- \_\_\_\_\_ Attached **Form 8718** (User Fee for Exempt Organization Determination Letter Request) and the appropriate fee?
- \_\_\_\_\_ Prepared the application for mailing? (See **Where To File** addresses on Form 8718.) Do **not** file the application with your local Internal Revenue Service Center.
- \_\_\_\_\_ Completed Parts I through IV and any other schedules that apply to the organization?
- \_\_\_\_\_ Shown the organization's **Employer Identification Number (EIN)**?
  - a. If your organization has an EIN, write it in the space provided.
  - b. If this is a newly formed organization and does not have an Employer Identification Number, obtain an EIN by telephone. (See Specific Instructions, Part I, Line 2, on page 3.)
- \_\_\_\_\_ Described your organization's **specific activities** as directed in Part II, line 1, of the application?
- \_\_\_\_\_ Included a **conformed copy** of the complete organizing instrument? (See Specific Instructions, Part I, Line 10, on page 3.)
- \_\_\_\_\_ Had the application signed by one of the following?
  - a. An officer or trustee who is authorized to sign (e.g., president, treasurer); **or**
  - b. A person authorized by a power of attorney (Submit Form 2848, or other power of attorney.)
- \_\_\_\_\_ Enclosed **financial statements** (Part IV)?
  - a. Current year (must include period up to within 60 days of the date the application is filed) and 3 preceding years.
  - b. Detailed breakdown of revenue and expenses (no lump sums).
  - c. If the organization has been in existence less than 1 year, you must also submit proposed budgets for 2 years showing the amounts and types of receipts and expenditures anticipated.

**Note:** During the technical review of a completed application, it may be necessary to contact the organization for more specific or additional information.

**Do not send this checklist with the application.**



## CONCLUSION -- ADDITIONAL RESOURCES

We hope that you have found this guidebook helpful in understanding the process your organization should follow in pursuit of a 501(c)(3) designation.

As part of the electric cooperative's ongoing commitment to improving the quality of life for all Missourians, Associated Electric Cooperative has created a series of resource materials related to fund-raising for not-for-profit organizations.

Through a public-private partnership arrangement, the following resources are available from either of these contacts:

Mark Woodson, Associated Electric Cooperative Inc., Box 754, Springfield, MO 65801-0754, (417) 881-1204, e-mail: [mwoodson@aeci.org](mailto:mwoodson@aeci.org), or John Gulick, Missouri Department of Health, CHART, Box 570, Jefferson City, MO 65102-0570, (573) 751-6750, (FAX) 573-526- 7646, e-mail: [gulicj@mail.health.state.mo.us](mailto:gulicj@mail.health.state.mo.us)

### 1. Mobilizing Community Resources

This publication was written by a team from the Nebraska Community Foundation, including Vicki Luther and Milan Wall of the Heartland Center for Leadership Development and Paul Strawhecker. The publication covers topics such as:

- |                                   |                          |
|-----------------------------------|--------------------------|
| -Organizing an ad hoc committee   | -Tapping local resources |
| -Identifying community priorities | -Making your case        |
| -Building community consensus     | -Marketing your plan     |

### 2. The Local Foundation Vision Video

A two-and-a-half-hour program produced by Associated Electric Cooperative with segments on:

- The history and growth of community foundations
- The steps to creating a community foundation
- Three models of community foundations
- Panel discussion talking about the unique opportunities provided by a local community foundation

### 3. Capital Campaign Implementation

This publication was written by Paul Strawhecker, a nationally recognized fund-raising consultant, and covers such topics as:

- |   |   |
|---|---|
| -Components of a development program      | -The role of a feasibility study              |
| -The roles of board, volunteers and staff | -Campaign overview and plan                   |
| -Should you use a consultant?             | -Organizing the campaign solicitation process |

### 4. Development Assessment and Planning

This publication will cover the following topics:

- |  |  |
|--|--|
| -Creating a development program                          | -Coordination of capital campaigns         |
| -Annual campaign plan and implementation                 | -Inventory of current fund-raising efforts |
| -Creating and maintaining a bequest program              |  |
| -Balancing your short- and long-term development efforts |  |

If you would like to receive a copy of any of these resources or additional copies of “Creating a 501(c)(3)”, please contact Mark Woodson at the address listed above or Sharon Gulick:

Sharon Gulick, Manager  
Office of Business Information  
Missouri Dept. Economic Development  
P.O. Box 118  
Jefferson City, MO 65102  
Phone: 573/751-4892  
Fax: 573/526-2416  
web: <http://www.MissouriDevelopment.org>

**Ordering IRS Tax Forms:**

1. Call (703) 321-8020
2. Contact the IRS Website at: <http://www.irs.ustreas.gov/>
3. For FTP forms go to <ftp.irs.ustreas.gov>
4. Fax Forms through your Fax machine, dial (703) 487-4160.

**Missouri Resources**

***Secretary of State***

This office can answer questions about incorporating in the state of Missouri as a not-for-profit and provide the applications and amendment forms. There are four sites in Missouri:

Missouri State Information Center  
600 W. Main / PO Box 778  
Jefferson City, MO 65102  
(573) 751-2359 or 751-4544

Wainwright State Office Building  
111 N. 7th Street, Room 225  
St. Louis, MO 63101  
(314) 340-7490

Springfield State Office Building  
149 Park Central Square, Room 1019  
Springfield, MO 65806  
(417) 895-6330

Kansas City State Office Building  
615 E. 13th Street, 5th Floor  
Kansas City, MO 64106  
(816) 889-2925

Forms are also available on the Secretary of State’s Website:

<http://mosl.sos.state.mo.us/forms/sosforms.html>

**Employer Identification Numbers**

If your corporation needs an Employer Identification Number (EIN) an application may be obtained and sent to the address listed below. This application may also be made over the telephone by calling the number listed after the address. **An EIN is required for all 501(c)(3) applications regardless of whether your corporation has employees.**

Attention: Entity Control  
Stop 57A  
2306 E. Bannister Road  
Kansas City, MO 64131  
(816) 926-5999

**Internal Revenue Service**

The application for the 501(c)(3) (Form 1023 and others) and all supporting documents must be sent to the address below (with the appropriate fee).

Internal Revenue Service  
P.O. Box 192  
Covington, KY 41012-0192

Best wishes to your not-for-profit organization.